

JPRS-CEA-84-089

26 October 1984

China Report

ECONOMIC AFFAIRS

FBIS FOREIGN BROADCAST INFORMATION SERVICE

NOTE

JPRS publications contain information primarily from foreign newspapers, periodicals and books, but also from news agency transmissions and broadcasts. Materials from foreign-language sources are translated; those from English-language sources are transcribed or reprinted, with the original phrasing and other characteristics retained.

Headlines, editorial reports, and material enclosed in brackets [] are supplied by JPRS. Processing indicators such as [Text] or [Excerpt] in the first line of each item, or following the last line of a brief, indicate how the original information was processed. Where no processing indicator is given, the information was summarized or extracted.

Unfamiliar names rendered phonetically or transliterated are enclosed in parentheses. Words or names preceded by a question mark and enclosed in parentheses were not clear in the original but have been supplied as appropriate in context. Other unattributed parenthetical notes within the body of an item originate with the source. Times within items are as given by source.

The contents of this publication in no way represent the policies, views or attitudes of the U.S. Government.

PROCUREMENT OF PUBLICATIONS

JPRS publications may be ordered from the National Technical Information Service, Springfield, Virginia 22161. In ordering, it is recommended that the JPRS number, title, date and author, if applicable, of publication be cited.

Current JPRS publications are announced in Government Reports Announcements issued semi-monthly by the National Technical Information Service, and are listed in the Monthly Catalog of U.S. Government Publications issued by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

Correspondence pertaining to matters other than procurement may be addressed to Joint Publications Research Service, 1000 North Glebe Road, Arlington, Virginia 22201.

26 October 1984

CHINA REPORT

ECONOMIC AFFAIRS

CONTENTS

PEOPLE'S REPUBLIC OF CHINA

PROVINCIAL AFFAIRS

Open Policy Brings Prosperity to Guangdong (XINHUA, 28 Sep 84).....	1
--	---

ECONOMIC DEVELOPMENT ZONES

Yantai Mayor on Plans for Increasing Tourism (XINHUA, 12 Sep 84).....	3
Yantai Expands Cooperation With Foreign Firms (XINHUA, 12 Sep 84).....	4
Qingdao, Yantai Expand Ties With Foreign Firms (XINHUA, 12 Sep 84).....	5
Qingdao City Speeds Up Economic Exchanges (XINHUA, 30 Sep 84).....	6

ECONOMIC PLANNING

Yu Guangyuan on Studying, Guiding Lifestyle (GUANGMING RIBAO, 19 Sep 84).....	7
--	---

AGGREGATE ECONOMIC DATA

Guangzhou's Economic Situation in Early 1984 (Sun Jianyu, Ma Guining; GUANGZHOU RIBAO, 19 Sep 84).....	10
Results in Readjusting Hubei Enterprise Leading Bodies (Hubei Provincial Service, 6 Oct 84).....	12

Shanghai Strives To Meet New Challenges (Shen Shiwei, Wu Fumin; XINHUA Domestic Service, 18 Sep 84)...	13
Lanzhou Press Conference on Economic Reform (Gansu Provincial Service, 23 Sep 84).....	17
Briefs	
Qinghai Industrial Production	18
Industrial Development	18
Jiangxi Industrial Output	18
ECONOMIC MANAGEMENT	
Guangzhou's District, Neighborhood Industries Thriving (GUANGZHOU RIBAO, 28 May 84).....	20
Enterprises' Growth Detailed, Deng Guoxiang Commentator Extols 'Millionaire' Enterprises	
Xu Dixin Expresses Views on Collective Economy (SHIJIE JINGJI DAOBAO, 27 Aug 84).....	23
Qinghai Meeting Discusses Urban Economic Reform (Qinghai Provincial Service, 24 Sep 84).....	25
Briefs	
Economic Forum Concluded	26
FINANCE AND BANKING	
New Stage of Tax Reform Viewed (Wang Shaofei; JINGJI YANJIU, No 8, 20 Aug 84).....	27
MINERAL RESOURCES	
Geological Data on China Published (RENMIN RIBAO, 22 Sep 84).....	35
INDUSTRY	
Record First Quarter for Shanghai Textile Industry Reported (JIEFANG RIBAO, 14 Apr 84).....	36
Briefs	
Technical Consulting Firm Opened	38

CONSTRUCTION

- Discussion on Reforming Capital Construction
(Wu Ling; JINGJI GUANLI, No 8, 5 Aug 84)..... 39

DOMESTIC TRADE

- Economic Results Increased by Preventing Overstocking
(Tian Ye, Li Zhilong; SHANGYE KUAIJI, No 6, 10 Jun 84)..... 45

FOREIGN TRADE AND INVESTMENT

- Gao Yangwen on Foreign Trade
(Gao Yangwen Interview; POLITYKA, 29 Sep 84)..... 49

SPECIAL ECONOMIC ZONES

- Foreign Investment Grows in Economic Zones
(XINHUA, 16 Sep 84)..... 53

TRANSPORTATION

- Briefs
 Merger of Railway Bureaus 55
 Lianyungang Port Development 55

TAIWAN

- Economics Minister Welcomes Hong Kong Investors
(CNA, 12 Oct 84)..... 56

- Briefs
 Increased East European Trade 58
 Foreign Exchange Reserves 58
 Trade Mission European Tour 58

HONG KONG MEDIA ON CHINA

- Bank of China Official on Post-1997 Role
(Olivia Sin; SOUTH CHINA MORNING POST, 6 Oct 84)..... 59

- Paper on Plans for Airlines in Fujian, Xiamen
(Robert Mayerson; SOUTH CHINA MORNING POST, 6 Oct 84)..... 61

HONG KONG ECONOMIC TRENDS

Hong Kong Governor on Economy, Finances (SOUTH CHINA MORNING POST, 5 Oct 84).....	63
Hong Kong-Shenzhen Economic Relations Discussed (Zhou Bingteng; GANG-AO JINGJI, No 3-4, 1984).....	67
Briefs	
Deficit Up	73
Agreement on Land Sales	73
Property Market Prospects	73

PROVINCIAL AFFAIRS

OPEN POLICY BRINGS PROSPERITY TO GUANGDONG

OW281357 Beijing XINHUA in English 0703 GMT 28 Sep 84

[Text] Guangzhou, 28 Sep (XINHUA)--Guangdong Province in south China has witnessed in the past five years its greatest economic advances since the People's Republic was founded in 1949.

Industrial output rose 56.7 percent last year over 1978, to 30.7 billion yuan. The province registered an average annual growth of 9.38 percent, well above the national average.

Output continued to rise in the first half of this year, reaching 16.7 billion yuan, up 12.7 percent over the same period a year ago. This is attributable to the special economic policies the province was authorized to carry out from July 1979.

The new measures gave Guangdong greater decision-making powers in foreign trade and opened its doors to the rest of the world economically.

They also led to a quick influx of foreign capital and advanced technology and equipment. From 1979 to 1983, the province signed 33,000 economic and technical cooperation contracts with foreign businesses, involving 4.64 billion U.S. dollars in foreign investment of which 1.2 billion has already been used. More than 150,000 items of technology or equipment were imported.

By June of this year, Guangdong had signed another 7,600 contracts involving a total of 520 million U.S. dollars in foreign fund. More pacts are being negotiated, some requiring tens of millions of U.S. dollars each.

Use of foreign funds and technology has enabled Guangdong to replace virtually all its aging equipment in the food, textile, garment, porcelain, chemical engineering, pharmaceutical and shipbuilding industries.

It has also given birth to some new industries, including household electrical appliance manufacturing, electronic instruments and packaging.

The boom has helped create a new modern industrial city at Shenzhen, formerly a desolate beach, on the province's border with Hong Kong, without a single cent of state investment.

More than 15,000 factories in the province, mostly in rural areas, are processing foreign materials or assembling products for clients overseas.

The Zhujiang (Pearl River) delta has practically become a processing zone, collecting fees totalling 123 million U.S. dollars in 1983.

A second boom has also developed in the collective and private sectors of Guangdong's economy. There are now more than 100,000 collective-owned enterprises in the province employing 2.15 million people.

A further 200,000 people are now self-employed, seven times the number five years ago.

In Guangdong's rural areas, more than 850,000 households--about 10 percent of the provincial total--specialize in various fields of production.

More than 55,000 cooperative enterprises have been organized by peasants to carry out development projects in the past two years.

The average peasant income in Guangdong was 318 yuan in 1983, an increase of 64.5 percent over 1978. In areas including Foshan, Shunde and Nanhai, that figure has risen to 700 to nearly 900 yuan, the highest in the country.

The development of the local economy has also stimulated exports, which increased 70 percent last year over 1978, growing at an average annual rate of 11.2 percent.

CSO: 4020/10

ECONOMIC DEVELOPMENT ZONES

YANTAI MAYOR ON PLANS FOR INCREASING TOURISM

OW121810 Beijing XINHUA in English 1514 GMT 12 Sep 84

[Text] Yantai, 12 Sep (XINHUA)—The city of Yantai in Shandong Province is planning to attract 100,000 foreign tourists a year by 1993, Mayor Dong Chuanzhou announced on Tuesday. This is more than seven times the figure for 1983, Dong told reports on an international cruising expedition here.

Yantai now has four tourist hotels with 700 beds compared with only one hotel before 1976.

A number of small new hotels have also been built over the past few years in 13 towns and counties under Yantai's administration.

Located on the eastern tip of Shandong Peninsula, Yantai has many scenic spots and historical buildings, including the Penglai Pavilion.

Construction of a holiday center in the eastern suburbs will be completed in the next four years. The Daiwushan Center will be a high-rise building with 580 beds for tourists.

Other facilities will include an international conference hall, and recreational, dance and exhibition halls.

Penglai port, an ancient naval base 400 years old, was opened to foreign visitors earlier this month following renovation.

The mayor said regular passenger air services from Yantai to Beijing and Shanghai would begin next month.

CSO: 4020/10

ECONOMIC DEVELOPMENT ZONES

YANTAI EXPANDS COOPERATION WITH FOREIGN FIRMS

OW121840 Beijing XINHUA in English 1437 GMT 12 Sep 84

[Text] Yantai, 12 Sep (XINHUA)--The city of Yantai in Shandong Province has proposed 115 new schemes for economic and technical cooperation with overseas firms.

These will involve upgrading existing enterprises and launching new businesses, Mayor Dong Chuanzhou told 100 reporters on an international cruising expedition here.

He said: "Priority for the use of foreign funds and imported technology will be given to food, electronics, textiles, machine-building and light industries."

Yantai is one of the 14 Chinese coastal cities opened wider to overseas investors this year. The city plans to set up an economic development zone to encourage the food industry, electronics, meters, [as printed] textiles, chemicals and new building materials.

Cooperation with foreign companies will take the form of joint ventures, cooperative businesses, enterprises with sole foreign investment, compensation trade, leasing and technology transfer, Dong said.

The city approved 69 projects involving foreign investment worth 37 million U.S. dollars in the first eight months of this year--six million dollars more than the total between 1972 and 1983. During the eight-month period, Yantai was visited by 500 business people from Austria, Britain, Japan and the United States, as well as Hong Kong and Macao.

Eighty-eight agreements, contracts and letters of intent were signed and 300 sets of equipment imported.

To provide foreign investors with a healthy environment, the mayor said, preparations were under way for the construction of hotels and other service facilities. And work was to begin next year on a telecommunications project to provide international telephone and telegraph services.

In addition, passenger air services from Yantai to Beijing and Shanghai were scheduled to begin next month.

CSO: 4020/10

ECONOMIC DEVELOPMENT ZONES

QINGDAO, YANTAI EXPAND TIES WITH FOREIGN FIRMS

OW122221 Beijing XINHUA in English 1505 GMT 12 Sep 84

[Text] Yantai, 12 Sep (XINHUA)--The cities of Qingdao and Yantai in Shandong Province have proposed 280 schemes for economic and technical cooperation with overseas firms.

The cities are planning to upgrade one-third of existing businesses by 1990 by using foreign funds to import technology, Provincial Governor Liang Buting today told reporters on a cruising expedition in Yantai.

Qingdao and Yantai are among the 14 Chinese coastal cities opened wider to foreign investors this year.

Liang said that the cities would set up economic and technological development zones to encourage Sino-foreign joint ventures, cooperative businesses and enterprises with sole foreign investment.

Sino-foreign research institutes would also be established there to develop new technology.

To convenience foreign business people, the Liuting Airport in Qingdao is now being expanded to take international flights, and the Laishan Airport in Yantai is to begin passenger air services to Beijing and Shanghai next month.

The ports of Qingdao and Yantai are also being expanded. Preparations are well under way for the construction of more hotels, better transport and international telecommunications facilities.

CSO: 4020/10

ECONOMIC DEVELOPMENT ZONES

QINGDAO CITY SPEEDS UP ECONOMIC EXCHANGES

OW300945 Beijing XINHUA in English 0644 GMT 30 Sep 84

[Text] Jinan, 30 Sep (XINHUA)—East China's coastal city of Qingdao has quickened its steps to import technology and equipment with foreign funds since it was announced that it would open wider to the outside world earlier this year.

According to the Municipal Economic Commission, from January to August this year the city entered into economic and technical cooperation with overseas investors on 52 projects involving 40.47 million U.S. dollars, signed letters of intent on 36 projects and held technical exchanges or business talks on 55 projects with overseas partners.

From 1978 to 1983, Qingdao concluded more than 75 million U.S. dollars' worth of contracts with overseas firms to import advanced technology and equipment and re-tool its medium and small enterprises textile, light, rubber, chemical and other industries. [as received]

Soon after it was designated one of China's 14 open cities last April, a study group led by Deputy Mayor Xu Shanyi visited Hong Kong and Macao, and held business talks with traders representing more than 80 firms.

This trip led to the signing of 20 contracts or agreements on joint ventures, co-production, assembling with supplied parts, compensation trade and import of technology and equipment.

Up to the end of August, more than 860 business people in 296 groups from the United States, Italy, Federal Germany, Canada, Australia, Finland, Switzerland, Sweden, Japan, and other countries and regions had visited Qingdao and held business talks with their local counterparts.

Early this month, the Qingdao Furniture Company and a Finnish firm signed an agreement for a joint-venture plywood plant in Qingdao. Some other projects such as the expansion of the Qingdao No 2 brewery are still under negotiation.

To further expand its economic and technical cooperation with overseas partners, the city has proposed 126 more projects and is ready to hold negotiations on them.

CSO: 4020/10

ECONOMIC PLANNING

YU GUANGYUAN ON STUDYING, GUIDING LIFESTYLE

HK271253 Beijing GUANGMING RIBAO in Chinese 19 Sep 84 p 1

["Exclusive" XINHUA report: "Yu Guangyuan Calls for Paying Attention to Studying Questions Concerning the People's Daily Lives"]

[Text] Recently, when giving an interview to the press, economist Yu Guangyuan pointed out that it is necessary to pay attention to the study of the people's consumption, daily lives, and way of life, so as to ensure that the people can lead better, happier, and healthier lives under the present economic conditions.

It Is Necessary To Give Scientific Guidance to the People's Lifestyle Rather Than Willfully Interfering in Their Daily Lives

Yu Guangyuan said: It is necessary for us to properly care for the people's livelihood, but we should distinguish the two different ways of handling matters in this regard. One of the ways is to simply interfere with the people's lifestyle. For example, some people tend to make rules regarding the style of people's hair, the width of the bottom of a trouser leg, and the thickness of shoe heels. They permit this and forbid that. This is a stupid way of management. How can the people be restrained from choosing their likes and dislikes freely? A Polish economist holds that matters in social life can be classified into three categories, which should be handled in three different ways, with the state deciding on overall matters, enterprises deciding on enterprise matters, and individuals deciding on personal matters in their daily lives. In principle, this is a good proposition. Even children may be annoyed at the excessive interference of their parents in their daily lives. Organizations, social groups, and the community need not and should not willfully interfere in the people's private lives.

Yu Guangyuan said: We should not willfully interfere in the people's private lives, but this does not mean that we should not give scientific guidance to the people. The correct way of management is to help the people acquire scientific knowledge so as to establish a correct lifestyle and aesthetic standards and to properly arrange their daily lives. On the other hand, guidance should be given to the people's consumption by means of correctly linking production with consumption. The masses do require guidance when arranging their livelihood. When I visited Wuxi County a few years ago, I called on an outstanding pig raiser, who could earn as much as 6,000 to 7,000 yuan a year. He had built a large new house, but I found that his house was quite dirty and was in a mess. This showed

that he had not yet learned how to enjoy a better life, though he had become rich. As another example, some young people in Shenzhen, which is adjacent to Hong Kong, do not know how to spend their money properly. They blindly imitate the lifestyle of Hong Kong residents without discrimination. We should not lay the blame on them, because we have not given them scientific guidance in selecting a proper lifestyle. The above instances show that some people have not known how to arrange their lives. So, Yu Guangyuan proposed that a new magazine be published to deal with matters in people's daily lives, and that the magazine be called LIFE-STYLE. He also proposed that seminars be held to study questions concerning the improvement of the people's lifestyle. Households which arrange their livelihood in a scientific way can be taken as models and people in the neighborhood can be invited to visit these model households. If they feel the way the model households arrange their lifestyle is agreeable, they can follow the same way; if they do not like the arrangement, they can go their own way.

It Is Necessary To Make Concrete Studies of the People's Food, Clothing, Shelter, and Transportation

How should we view man's life? Engels once made a remark on this question, saying that man must first subsist, second enjoy himself, and third develop himself. Yu Guangyuan said: To subsist means that man must keep himself alive and healthy; to enjoy himself means that he can get more than his basic needs; and to develop himself means that he can develop his specialties and talents. Corresponding to this, there are means of subsistence, means for enjoyment, and means for development. Also correspondingly, man's time is divided into the necessary time for subsistence, the necessary time for enjoyment, and the necessary time for development, which form the three different aspects of man's life. Viewed from a different angle, human consumption can be divided into three major categories: the first includes food and medicine which are directly consumed by human bodies; the second includes housing, clothing, lighting, air-conditioning, and cooking installations, which constitute the artificial environment for man's living; and the third is related to man's spiritual, cultural, and social life. It is necessary for us to make concrete studies of these three aspects of man's life and these three categories of human consumption.

Yu Guangyuan said: Food can also be divided into different classes in terms of quality: ranging from low grade to high, there are vegetables used as food grain substitutes, coarse food grain, flour and rice, bean curd, meat, and milk products. To eat food of a higher quality, people may go to a restaurant to enjoy delicacies and can even eat some delectable food which is nutritious. That is to say, the food of Chinese people ranges from low to high class. Yu Guangyuan said: Not long ago when he visited the Chengde area, he found that farmers there were growing more maize than wheat and were studying the intensive cultivation of maize, which was taken as a strategic issue in the development of this area. Now, people in the United States have invented methods of making bread out of maize by adding some special nutritious condiments, and it is said that the bread is quite delicious.

Yu Guangyuan said: It is also necessary to study people's clothing and to develop new fashions for ladies and men. Such questions as how to handle outdated old clothes should also be studied. In the Dehong area, Yunnan Province, it is quite cold in the early morning, so people like to have something draped over their shoulders. Men there like to drape a thin blanket over their shoulders and women

like to drape a pillow towel or a bath towel. He proposed that towel plants make some special scarves and shawls, which would surely be better than blankets and towels and will surely be marketable. He said that he did not know whether the relevant factories had begun to produce these things or not.

Yu Guangyuan said: It is also an important task to study the lifestyle of minority nationalities. For example, the lifestyle of Mongolian people is characterized by their yurts. In recent years, herdsmen in Nei Monggol have increased their incomes, and many of them are able to buy wind-driven generators. With a wind-driven generator and some storage batteries, people can install electric lights and TV sets in their tents, thus enriching the content of their life. It is hard to erect high-pressure power transmission lines over the vast grasslands. However, if people who have more than 500 yuan per capita annual income still cannot use electric lights and cannot watch television, the situation does not match the economic potential of the area. Therefore, the departments concerned should speed up the production of wind-driven generators to satisfy the needs of the herdsmen. At the same time, can we consider the production of more motorcycles, as a way to improve transport conditions on the grasslands, where people are used to riding horses? In short, we should carefully study every item of the people's food, clothing, shelter, and transportation so as to ensure that the people will be able to improve their living standards on the basis of the development of production, and that our nation's material and spiritual civilization can be continuously raised.

CSO: 4006/29

AGGREGATE ECONOMIC DATA

GUANGZHOU'S ECONOMIC SITUATION IN EARLY 1984

HK250336 Guangzhou GUANGZHOU RIBAO in Chinese 19 Sep 84 p 1

[Report by Sun Jianyu [1327 1017 1938] and Ma Guining [7456 2710 1337]:
"Guangzhou's Economic Situation Steadily Improves"]

[Text] Guangzhou's national economic situation has grown better and better since the beginning of this year, and the market has become more prosperous and active, according to a statement by Zhou Dongshan, deputy director of the city economic commission, which was given to the reporter at the city commercial work conference held on 16 September.

It is learned that in the first 7 months of the year, the city's gross industrial output value was 7.21 billion yuan, an 8.03 percent increase from the same period last year; of which, heavy industry grew by 8.44 percent, while light industry grew by 7.8 percent. Gross output of summer grain was 1.9 billion jin, a 3.15-percent increase over 1983, which was a record year; the range of increase of such cash crops as peanuts and vegetables was also comparatively great. In the first 7 months of this year, the city's financial revenues were 1.255 billion yuan, a 9.1-percent increase over the same period last year; the turnover from the retail trade was 3 billion yuan, a 9.4-percent growth over the same period last year.

According to Zhou Dongshan, in the first 7 months of this year, there emerged in the Guangzhou market the following five new characteristics: 1) The country fair market was very active. The total sum of transactions in the whole city was 364 million yuan, a 22.6-percent increase over the same period last year, among which, the sum of transactions in the suburban areas grew by a comparatively large margin, with a 46.2 percent increase. 2) The social commercial structure was readjusted. Among the turnover from the retail trade, the growth rate of collective and individual commerce was faster than that of state-owned commerce; their proportions have been rising and they have played the role of making the market thrive. 3) The supply of non-staple food was comparatively ample; prices were stable and there was some reduction. In the first 6 months of the year, the general level of retail prices of commodities at negotiated price fell by 8.5 percent, which is unprecedented. 4) Expensive and moderately-expensive commodities were selling well. A total of 16,134 colored television sets were sold between January and July, a 200-percent growth over the same period last

year: 47,000 table electric fans were sold, a 4.9-percent increase over the same period last year, while sales of woolen fabric grew by 180 percent over the same period last year. 5) The catering service and hotels were doing good business; volume of business in the first 7 months of the year was 209 million yuan, a 7.9-percent increase over the same period last year, with a 51.4-percent increase in gross profits. According to Zhou Dongshan, these characteristics have shown that the city's national economic situation has been getting better and better.

CSO: 4006/29

AGGREGATE ECONOMIC DATA

RESULTS IN READJUSTING HUBEI ENTERPRISE LEADING BODIES

HK090459 Wuhan Hubei Provincial Service in Mandarin 1100 GMT 6 Oct 84

[Text] Marked results have been achieved in the work of readjusting enterprise leading bodies in the province. By the end of September, 1,801 state-operated medium- and small-sized enterprises in the province covered by provincial budgets had completed the task of readjusting their leading bodies on schedule. They did their work in accordance with the demands set by the central authorities and the provincial CPC committee.

Among 50 medium- and large-sized key enterprises, 20 enterprises have succeeded in establishing leading bodies composed of members who are highly educated, accounting for 40 percent of the total number of medium- and large-sized key enterprises. After the readjustment, the structures of various leading bodies have been improved, and their quality has been enhanced. According to initial statistics, the average membership of the leading body in each medium- and small-sized enterprise has been reduced from the previous 5 to the present 4.5 persons, and the average age has been lowered from the previous 45.3 to the present 41. The percentage of cadres who have a college or secondary school educational level has been increased from the previous 19.6 percent to the present 32.4 percent. With regard to the 20 medium- and large-sized key enterprises which have completed the task of establishing leading bodies composed of highly educated members, the percentage of cadres who have a college or secondary school educational level has been increased from the previous 45.6 percent to the present 94.6 percent. The percentage of cadres with technical titles of assistant engineer or above has been increased from the previous 41.3 percent to the present 63.8 percent.

CSO: 4006/29

AGGREGATE ECONOMIC DATA

SHANGHAI STRIVES TO MEET NEW CHALLENGES

OW231125 Beijing XINHUA Domestic Service in Chinese 0208 GMT 18 Sep 84

[Report by XINHUA reporters Shen Shiwei, Wu Fumin: "'Greater Shanghai' Faces New Challenges"--XINHUA headline]

[Text] Shanghai, 18 Sep (XINHUA)--Shanghai is struggling for its revitalization. The impact of the world's technological revolution and the challenges of the economic "take-off" of fraternal provinces and municipalities have instilled an unprecedented sense of urgency among the people of Shanghai.

Shanghai is a "window" on our country's economic development. Here people can get a glimpse of the fierce competition among the ablest contestants of the nation, which is itself an arena of 9.6 million square kilometers. Seeing that certain Shanghai-made goods are losing ground, people in Shanghai have come to realize that their "leading" position is wobbly, and that it is no longer "first in command."

The following facts and figures should awaken the people of Shanghai:

For more than 30 years, Shanghai was the national "champ" as far as high national income, an important composite index for measuring economic development, was concerned. Although Shanghai went all out in 1983 to keep its title, and although its national income exceeded an unprecedented 30 billion yuan, it had to step down from the throne and take the fifth position behind Jiangsu, Shandong, Sichuan, and Guangdong in that area.

For a very long time, Shanghai remained unchallenged in the country in terms of the value of total industrial and agricultural output combined, as well as the value of total industrial output. In 1983, however, Jiangsu took its laurels away for turning out the highest value of total industrial and agricultural output.

The situation looks even grimmer in industrial growth. From 1950 through 1978, the value of Shanghai's total industrial output increased by an average of 11.5 percent annually. Following the 3d Plenary Session of the 11th CPC Central Committee, industrial production has developed rapidly in all parts of the country, and many other provinces and municipalities have made giant strides to catch up, with annual growth of over 10 percent as opposed to Shanghai's average annual growth of only 5.8 percent from 1979 through 1983.

People in Shanghai's industrial circle also realize that many professions and trades in Shanghai are being "attacked from both north and south and squashed by neighbors." In 1982, Liaoning Province, with its 48 state-awarded gold and silver medals for quality goods, replaced Shanghai, which had hitherto been "collective champion" for 3 consecutive years with the largest number of gold and silver medals, and became the new champ. Ladies' wristwatches made in Tianjin proved to be more popular than those made in Shanghai because Tianjin watches had more modern designs and greater variety. The world-renowned speed and new concepts of Shenzhen and its Shekou District in southern China have created signs of admiration among the people of Shanghai, who are known for their efficiency. Shanghai's close neighbors, Jiangsu and Zhejiang, have outsold Shanghai in some goods after several years of energetic competition with Shanghai.

Another formidable trend is that large amounts of goods made in other parts of the country are pouring into Shanghai to compete with Shanghai-made goods on the market. Though the windows of the numerous stores in Shanghai people can see the great variety of goods from other parts of the country: refrigerators and washing machines from Beijing and Jiangsu, electric irons and lamps from Zhejiang, electronic calculators from Guangdong and Fujian, woolen cloth from Jiangsu, linen goods from Hunan, plastic footwear from Fujian, cosmetics from Tianjin, and glassware from Dalian. Even bicycles made in other parts of the country--like Tianjin's "Pigeon" bicycles, Jiangxi's "Flying Fish" bicycles, Sichuan's "Mount Emei" bicycles, Guangxi's "Swan" bicycles, and about one dozen others--are being marketed in Shanghai. Shanghai-made toothpaste used to monopolize the domestic market. Now, to the amazement of Shanghai's toothpaste producers, toothpaste produced in other parts of the country has captured one-half of the Shanghai market. Statistics show that one-fifth of the goods being marketed in Shanghai's 10 major department stores are made in other parts of the country.

The changing market situation at home and abroad has become the most formidable challenger. People still can remember that when Yang Xiaoyun, a peasant from Hubei, sold 10,000 jin of food grain to the state 3 years ago, the only item he wanted to take back home was an "Everlasting" bicycle made in Shanghai. Now, numerous hard working peasants have become well off, earning more than 10,000 yuan a year per family. Their demands are not merely for bicycles, but also color television sets, refrigerators, washing machines, cassette tape recorders; and some even want air conditioners, pickup trucks, and small airplanes for farming. With the 800 million peasants' purchasing power rapidly increasing, Shanghai's industrial departments have come to be profoundly aware that the development of their production can hardly keep up with the consumers' growing demand. According to a survey, on the changeable international market today, 9 percent of Shanghai's export goods would be rejected, and 50 percent of its export goods have to be upgraded. All this shows that Shanghai has not been able to keep pace with the tempo of market changes.

People in Shanghai have mixed feelings toward their wobbly "leading" position. They are both happy and "anxious." They are happy and encouraged to know that, following the 3d Plenary Session of the 11th CPC Central Committee, Shanghai's fraternal provinces and municipalities have caught up with Shanghai, thus creating the gratifying, thriving situation; but they are also anxious to learn that they are no longer the leader, and that they must work harder in order to catch up.

It is true that Shanghai's economic burden is quite heavy as this tiny place, with only less than one-twentieth of the value of the nation's fixed industrial assets, is turning out one-eighth of the value of the nation's industrial goods and contributing one-sixth of the nation's financial revenue. Today there are many factors obstructing Shanghai's economic growth. For example, because of a heavy financial burden, the equipment of many Shanghai enterprises is aging; very limited land in the urban area can be developed; and so forth. However, the 4.8 million workers in Shanghai, who are traditionally dauntless and competitive, are determined to press forward despite difficulties, after analyzing the causes of their setbacks. Now they have come to realize that the solution to Shanghai's economic development lies in further "enlivening the operation." They realize that, by further "enlivening the operation," they will become more resourceful and can give fuller scope to Shanghai's favorable situation. In the past, other provinces and municipalities sent their personnel to Shanghai to learn its experiences. This year, Shanghai has sent one "high-ranking delegation" after another to Tianjin, Guangdong, and other places to learn from them. Since the beginning of this year, the Shanghai People's Government has invited hundreds of experts, scholars and people in the economic circles to discuss and study measures for meeting new challenges and strategies for achieving an economic revitalization. These measures and strategies primarily include:

Instead of putting heavy emphasis on industrial development as in the past, Shanghai must divert its focus of attention to achieving a coordinated development of industry and tertiary industries and giving fuller scope to a big city's multi-dimensional functions in handling commodity circulation and financial affairs, and in providing informational, consultative, accounting, legal and commercial services, thus making Shanghai an economically, scientifically, technologically and culturally developed and well-informed modern socialist international metropolitan area with a well-developed transportation network. To match this strategic change, Shanghai must turn its suburban counties into a new "stage" for achieving an economic revitalization. The structure of ownership, which is now basically ownership by all the people, must consist of collective and individual economic undertakings as well as joint ventures, with ownership by the whole people as the mainstay. In terms of product mix, extensive production must be replaced by intensive production, making Shanghai an important base for producing high-grade, precision, and sophisticated products of good quality.

The situation presses people in Shanghai forward. With conspicuous superiority Shanghai has regained the state's 1983 and 1984 "collective championships" for quality goods. During the first 8 months of this year, the value of Shanghai's industrial output grew 9 percent and the city also achieved preliminary success in urban reform and opening to the outside world. Ever since the State Council decided to open 14 coastal cities to the outside world, an unprecedented "investment craze" has appeared among foreign businessmen in Shanghai. Many representatives of internationally renowned consortia and financially powerful industrialists have come to Shanghai to negotiate investment, showing great interest in large-scale cooperation projects. To explore ways and means of urban reform, leading comrades of the Shanghai Municipal Party Committee and the

municipal people's government are now spending each Thursday with grassroot units studying their situation and listening to the masses' opinions. The mammoth contingent of scientists and technicians in Shanghai has been actively engaged in developing new technologies, such as microelectronics technology, optical fiber telecommunications, laser technology, biological engineering, marine engineering, new materials, robots, and so forth, and they have also revitalized certain traditional industries by "transplanting" or "instilling" some new technologies into those industries.

Those who have placed high hopes on Shanghai will not be disappointed. It is certain that Shanghai will have a new outlook, and its old industrial bases will be revitalized!

CSO: 4006/29

AGGREGATE ECONOMIC DATA

LANZHOU PRESS CONFERENCE ON ECONOMIC REFORM

HK241315 Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 23 Sep 84

[Text] This afternoon, the Lanzhou City CPC Committee and City People's Government held a news release conference to introduce the situation in Lanzhou City's comprehensive economic structural reform.

At the news release conference, the spokesman of the Lanzhou City CPC Committee and City Government introduced the situation, saying: Since April this year, through comprehensive urban economic structural reform, a relatively good situation in the city's economic work has appeared. The city's cumulative gross industrial output value from June to August this year was 709 million yuan, 8.5 percent more than in the same period last year. The city submitted profits and taxes of 19.85 million yuan to the state, 43.4 percent more than in the corresponding period last year. The increase in taxes and profits was greater by far than the increase in production.

The spokesman of the Lanzhou City CPC Committee and City Government, in introducing the situation, also said: Centered on the work of giving play to the role of a key city, while Lanzhou City is strengthening economic connections with specified units, it has also developed economic connections with other units. Since the beginning of this year, Lanzhou City has cooperated with enterprises of the Central Authorities and of the province in Lanzhou in embarking on 100 items, 56 of which have been put into operation. The output value of these 56 projects reached 21 million yuan. Moreover, the city has also cooperated with universities, colleges, and scientific research units in engaging in 30 projects, 12 of which have now been completed, increasing output value by 5.76 million yuan. The city and prefectures in the province have reached 91 agreements on economic and technological cooperation. The city and provinces, municipalities, and autonomous regions, including Shanghai, Tianjin, Beijing, Sichuan, Jiangxi, Zhejiang, Guangdong, Shanxi, Ningxia, Qinghai, and Xinjiang, have reached 106 agreements on cooperation one after another and the city has imported funds of 23 million yuan. The city has recently studied and decided on the first batch of 42 items which can be carried out with other places. It is estimated that the amount of investment will be 400 million yuan and the additional output value will be 670 million yuan.

CSO: 4006/29

AGGREGATE ECONOMIC DATA

BRIEFS

QINGHAI INDUSTRIAL PRODUCTION—Qinghai Province's gross industrial output value in August was 146.36 million yuan, 1.6 percent more than the planned monthly output value and 13.4 percent higher than in the same period last year. The province's accumulative gross industrial output value by the end of August was 1,018.94 billion yuan, which was 69.3 percent of the annual quota and was 11.1 percent more than in the corresponding period last year. [Summary] [Xining Qinghai Provincial Service in Mandarin 1100 GMT 24 Sep 84 HK]

INDUSTRIAL DEVELOPMENT—After 35 years of construction since the founding of the PRC, our province has set up a modern industrial system, with nearly comprehensive branches and a basically reasonable pattern. In 1983, the province had more than 33,800 industrial enterprises, with the total industrial output value reaching 56.88 million yuan, an increase 45.5 times 1949 figures. Paying attention to developing industry since liberation, the party and the people's government have gradually set up an industrial system with nearly comprehensive branches, including such industries as textile, electronics, chemical engineering, metallurgy, and foodstuffs as the backbone, and continually raised production capacity. The province's capacity to tap coal with existing facilities has reached 14 million tons. The installed capacity of the province's power generating units has reached 2 million kilowatt-hours. Since the 3d Plenary Session of the 11th CPC Central Committee convened, the supply and marketing departments of our province have earnestly implemented the party Central Committee's principle of readjustment, restructuring, consolidation, and improvement. As a result, light industry has reversed its long-term backwardness, while heavy industry has readjusted product structure, and expanded service orientations. Light and heavy industries are developing side by side in a coordinated manner. [Excerpts] [Nanjing Jiangsu Provincial Service in Mandarin 1100 GMT 2 Oct 84]

JIANGXI INDUSTRIAL OUTPUT—Jiangxi has achieved tremendous results in industrial production since the founding of New China. Its total industrial output in 1983 increased 5,520 percent over 1949, achieving an average increase of 12.6 percent each year. Rapid industrial development has brought marked changes in Jiangxi's economic structure. In 1983, Jiangxi's total industrial output accounted for 54.3 percent of the province's total industrial and agricultural output as compared to only 17.5 percent in 1949. While production increased steadily, economic results have also markedly improved. The net industrial output value increased to 3.357 billion yuan in 1983 from only 85 million yuan in 1949, averaging an increase of 13.2 percent each year. Overall labor productivity of state-owned

industrial enterprises in 1983 increased 340 percent over 1949. Total taxes and profits delivered by the province's industrial departments last year accounted for 74 percent of Jiangxi's total financial revenue. Over the past 35 years, Jiangxi has built over 13,000 industrial enterprises in 15 departments, including metallurgy, electric power, coal, petroleum, machinery, textile, food, and other, employing a total labor force of over 1.28 million. State-owned industrial enterprises which conduct their own independent accounting boast a total fixed asset of 10.1 billion yuan. Of the world's more than 150 kinds of known minerals, 126 have been found in Jiangxi, with 11 of them ranking first in the nation. [Excerpts] [Nanchang Jiangxi Provincial Service in Mandarin 1100 GMT 3 Oct 84]

CSO: 4006/29

ECONOMIC MANAGEMENT

GUANGZHOU'S DISTRICT, NEIGHBORHOOD INDUSTRIES THRIVING

Enterprises' Growth Detailed

Guangzhou GUANGZHOU RIBAO in Chinese 28 May 84 p 1

[Article by Deng Guoxiang [6772 0948 1651]: "Growth of Guangzhou's District and Neighborhood Industries Is Encouraging; Policies Are Relaxed, Enterprise Rights Are Broadened, Economy Is Stimulated; Output Value Steadily Increasing at an Average of 6.1 Percent Annually over Past Five Years; Annual Profits of Twenty-nine Administrative Neighborhoods Exceed One Million Yuan"]

[Text] Guangzhou's district and neighborhood industries [qujie gongye 0575 5894 1562 2814] are thriving at the present time. This is the result of economic activity stimulated by the steadily increasing power given district and neighborhood industries during the past five years.

Statistics show that since 1979 Guangzhou's district and neighborhood industries have steadily raised their output value by an average of 6.1 percent each year, while profits have progressively increased by 13.9 percent and average percapita income for staff and workers has risen from 48 to 80 yuan per month. At present, neighborhoods [as published] earning profits of over one million yuan per year number 29, more than one-third of Guangzhou's administrative neighborhoods. This is another result of the progressive broadening of enterprise powers which has in turn resulted from Guangzhou Municipality's turning over of fiscal responsibility to the districts and from the municipality's and the district's policy of relaxation vis-a-vis district and neighborhood industries.

During the past several years, district and neighborhood industrial enterprises have expanded their powers in the areas of personnel, finance, materials, production, supply, and marketing. For several years now, some factory heads have tried out "forming a cabinet" whereby they select their deputies, section comrades, and organization comrades. In other factories the chief and deputy chief are elected by the workers and staff. As for financial powers, in the past, enterprises were only authorized to spend 500 yuan. Now they can purchase equipment on their own. District and neighborhood industries formerly operated under strict limitations in the areas of production, supply, and marketing. If, for instance, a neighborhood factory could only process spare parts for state-run factories and develop small products that "made up for their deficiencies," then it could not develop its own product line. This did not permit

the planned supply of raw materials or their procurement from outside areas. If raw materials procured from outside were not certified by the municipal departments concerned, then banks would not extend credit. Nor could these enterprises search about to exchange raw materials. As a result, the majority of enterprises could only process products for state-run factories. The small products of district and neighborhood industries first had to be routed through the commercial sector's wholesale departments before they could be marketed. Goods for local use and for export were also restricted. But in recent years these inhibitive restraints on district and neighborhood industries have been removed one after another. They are now able to develop their own products according to market demand and without the examination and approval of higher authorities. They may purchase materials from categories II and III, as well as category I materials not included in the 5-year plan. They can market their products on their own, from shop to factory, and sell directly to retailers to have their products marketed. They can hold meetings to expand sales and can straddle both trade and regional joint management. By making full use of their flexibility as "small boats that are easy to maneuver," district and neighborhood industries should individually develop marketable products in line with the principles of free market regulation. Thus several formerly "extinct factories" have recovered by changing their product line. District and neighborhood industries are now prospering, little by little.

At the same time that District and neighborhood industries are stimulating the domestic economy, they have also developed foreign trade processing according to the "three comes and one compensation." Factories owned by district and neighborhood industries now have the right to discuss business directly with port merchants. Districts are authorized to approve contracts for processing foreign trade up to US \$500,000. Because enterprises now have the right to engage independently and directly in direct processing of foreign trade, many previously complex procedures have been simplified; the port merchants have enthusiastically welcomed this. Currently there are 312 district and neighborhood factories in Guangzhou that process goods for port merchants. This represents 28 percent of all districts and neighborhood industrial enterprises. Each district has a fleet of vehicles for use in processing foreign trade. This enables the district and neighborhood industries to process foreign trade articles and transport them to the Wenjin Ferry in the morning and have the necessary materials needed for processing these articles shipped in on the same day. By comparison it takes state-run enterprises from 15 days to one month to have their goods consigned for shipment at the port. Time truly is money, and for this reason many port merchants are delighted to be doing business with the district and neighborhood industries.

Commentator Extols 'Millionaire' Enterprises

Guangzhou GUANGZHOU RIBAO in Chinese 28 May 84 p 1

[Commentary: "Enterprises Should Boldly Take Advantage of Their Expanded Rights"]

[Text] A large number of what have been called "millionaire" neighborhood industrial companies and factories has appeared in Guangzhou as a result of the increasingly lively neighborhood industrial economy. There are several whose experiences should be emulated by the 70 enterprises enjoying expanded rights as they currently broaden their independence.

These "millionaire" enterprises are representative of those district and neighborhood industries that in recent years have boldly and adeptly used their newly-broadened powers to enliven the economy. After securing these powers, these district and neighborhood enterprises have adopted the spirit of developing new projects and have freed their hands and feet to make full use of their growing independence to enliven the economy in a thousand and one ways. For instance, after gaining the right to conclude their own contracts for processing foreign trade, an entire set of unnecessary and trivial procedures were done away with once and for all and several unnecessary administrative levels were simplified. Consequently, efficiency has vastly improved and a new breakthrough in the development and flourishing of the foreign trade processing industry according to the "three comes and one compensation" has occurred, thereby engendering heartening changes for a great many enterprises. The pathbreaking and creative spirit of these district and neighborhood industries that have so adeptly utilized their new rights is something that state-run enterprises enjoying broadened powers should emulate.

At the same time, however, there are several enterprises that have failed under the same conditions to improve the economy and some that have even failed to change at all. Why is this? Perhaps the main reason is these enterprises' reluctance to boldly make use of their new rights. We have often seen this situation: because of the influence of "leftist" thinking, every time a particular enterprise sets about using its broadened powers, for every new step taken there is someone who opposes it by bringing some form of ideological pressure to bear upon the leadership. For instance, when a factory manager decides to "form a cabinet" someone always accuses him of "trying to form a clique." Or if an enterprise tries to exercise its new independence by rewarding hard work and punishing laziness or by eliminating the corrupt practice of "eating from one big pot," someone accuses it of "doing violence to the worker's interests," and so on. Such idle jabbering has created a good deal of ideological pressure among certain enterprise leaders which has made them reluctant to exercise their new powers. These leaders truly ought to emulate the indomitable spirit of Comrade Bu Xinsheng [2975 9515 3932] and boldly exercise their enterprises' independent authority so as to use every available means to stimulate the economy.

By eliminating the pernicious influence of the "left," and by boldly and adeptly making use of their powers, enterprises enjoying expanded authority definitely can create a new situation.

ECONOMIC MANAGEMENT

XU DIXIN EXPRESSES VIEWS ON COLLECTIVE ECONOMY

HK240615 Shanghai SHIJIE JINGJI DAobao in Chinese 27 Aug 84 p 7

[Report: "Xu Dixin Puts Forth New Views on the Collective Economy, Saying That Since Workers and Staff Members Are Allowed To Become Shareholders, They Are Entitled to Share Bonuses"]

[Text] Speaking at a board meeting of the All-China Federation of Handicraft Cooperatives, noted economist Xu Dixin put forth several new views on the problems of the collective economy of the handicraft industry in China. He maintained that the collective economy of the handicraft industry in our country should be based on collective ownership of the laboring masses who own the means of production.

Xu Dixin added: "After it is based on collective ownership of the laboring masses, once workers and staff members become shareholders they should become the source of funds for the collective handicraft industry. With the development of the collective handicraft industry, workers and staff members will gradually buy more shares. This will give rise to the question of sharing bonuses. Since workers and staff members are allowed to become shareholders, they are entitled to share bonuses.

He stressed: "This problem was negated when the elementary agricultural producers' cooperatives were changing over to the advanced agricultural producers' cooperatives. The reason was that sharing bonuses would conflict with the principle of distribution according to work. Judging from the present-day situation, this issue is worth studying again. If workers and staff members are allowed to become shareholders but are not entitled to share bonuses, this will conflict with the fact that residents who deposit their money in banks are entitled to get the interest. Since residents who deposit their money in the people's banks can legally get their interest, why shouldn't we allow workers and staff members who become shareholders of the collective enterprises to share bonuses?"

Xu Dixin pointed out: The property ownership, management and administration power, and the power for appointing and removing personnel of the collectives should be respected and protected. The decisionmaking power of the collectives in these three aspects has markedly shown the essence of the collective economy of the handicraft industry. This has also shown that its nature is different

from that of the state-run enterprises based on the ownership by the whole people. The "leftist" mistakes negate such differences, the collective ownership system of the laboring masses, and the decisionmaking power of the collectives in the above three aspects. This runs counter to the objective requirement that production relations should conform with the nature and law of productive forces. Practice has proven that when the collective assets of the handicraft industry are frequently and indiscriminately transferred, the production of the handicraft industry is liable to be repeatedly hampered. Hence, handicrafts will be in short supply on the market. This will be very harmful to the development of our national economy.

Xu Dixin stressed that workers and staff members working in enterprises under collective ownership of the laboring masses have dual status. In the process of production, they are direct laborers. In the meantime, they are owners of the enterprises. Therefore, the collective economic organizations should carry out democratic management in accordance with law. All the laborers have the right to elect and recall management personnel and make decisions on important business issues.

As far as the management method of the collective handicraft industry is concerned, should it mainly rely on the method of planned economy or on market regulation? Xi Dixin said that according to the characteristics of the production of the handicraft industry and the practice in recent years, administration by different levels should be exercised over the collective economy of the handicraft industry in accordance with different categories of products. It is necessary to implement the policy of overall consideration and all-round arrangement. Only thus can we "pursue the plans on a solid basis, handle goods and materials based on the target, and give full play to production." However, only a limited number of products are manufactured according to mandatory planning. Most products are manufactured according to guidance planning. With regard to industrial products for daily use, small commodities in particular, they should make full use of regulation by the market under the guidance of state planning. In accordance with market demands and the changing situation, enterprises may adopt many and varied methods to arrange production in a flexible way. In such a way they will offer conveniences to the masses and develop the production of the collective handicraft industry.

CSO: 4006/29

ECONOMIC MANAGEMENT

QINGHAI MEETING DISCUSSES URBAN ECONOMIC REFORM

HK250853 Xining Qinghai Provincial Service in Mandarin 1100 GMT 24 Sep 84

[Text] With a view to making theoretical workers in our province promptly understand the situation in urban economic reform in the province, to making them further study and publicize reform, and to making theoretical work serve economic construction even better, on the afternoon of 18 September the Propaganda Department of the Provincial CPC Committee held a report meeting in the hall of the party school of the provincial CPC committee on the situation in urban economic reform. Comrades concerned of the general office of the provincial economic structural reform leadership group and of the policy study office of the provincial CPC committee respectively introduced the situation in economic reform on the industrial and communications front and the finance and trade front. Some 200 theoretical workers in Xining attended the meeting.

Since the beginning of this year, our province has made certain achievements in urban economic reform in our province, with 63 state-run industrial enterprises having substituted taxes for the delivery of profits and having initially changed the situation in which no concern was shown for whether they were prosperous or not and ate out of the state's big rice pot, and economic results having been markedly raised. In particular, units which have implemented the system of factory director responsibility and the system of contract within enterprises, have apparently changed the outlook of the enterprises. At present, a certain progress has been made in economic structural reform in the circulation sphere. A new structure in our province's circulation sphere has been gradually formed.

Although many deficiencies exist in our province's urban economic structural reform, the trend of reform is irresistible and is developing widely, penetratingly and well.

CSO: 4006/29

ECONOMIC MANAGEMENT

BRIEFS

ECONOMIC FORUM CONCLUDED--The forum of five cities in northwest China on economic and technological cooperation lasted 5 days and concluded in Lanzhou this afternoon. Jia Zhijie, deputy secretary of the provincial CPC committee; and Hou Zongbin, vice governor, attended the forum and spoke. They said: To turn the advantages of our province's natural resources into economic advantages, we must remove regional barriers and must carry out extensive economic and technological cooperation to greet the fine situation in strategically shifting the focal point of our country's economic construction onto the great northwest by the end of this century. Representatives from Xian, Yinchuan, Urumqi, Xining, and Lanzhou cities and responsible comrades of the province, totaling some 80 people, who attended the forum extensively studied the possibility and potential for carrying out economic and technological cooperation between the five cities. They also put forward eight views, including the establishment of a network of information organizations and cooperation in tackling key problems of [word indistinct] products. At the forum, after full consultation, representatives from the five cities put forward 79 items of economic technological, and material cooperation. These items will be implemented through consultation following the conclusion of the forum, so as to promote the constant forward development of economic and technological cooperation in the five cities in northwest China. [Text] [Lanzhou Gansu Provincial Service in Mandarin 1100 GMT 23 Sep 84]

CSO: 4006/29

FINANCE AND BANKING

NEW STAGE OF TAX REFORM VIEWED

HK270839 Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 84 pp 13-16

[Article by Wang Shaofei [3769 4801 7378] of the Economic Research Center under the Chinese Academy of Social Sciences for Studying Finance, Trade and Goods and Materials: "Substituting Tax Payment for Profit Delivery Shows a New Stage of Tax Development"--written in July 1984]

[Text] Compared with the first step, the second step of the reform of substituting tax payment for profit delivery is a qualitative change which reflects a new stage of our country's taxation development. This is reflected mainly in the following several aspects.

1. With Regard to Fiscal Revenue, the Double-track System Whereby Taxation and the Turning Over of Profits to Higher Authorities Coexist Is Replaced by a Single-track System of Taxation Only

Since the founding of the PRC, in collecting fiscal revenue, we have always practiced the system whereby taxation and the turning over of profits to higher authorities coexist; the state enterprises must both pay taxes and turn over profits to higher authorities. Out of the value of the surplus product created by the state enterprises, a definite sum, which is a certain proportion for use as workers' welfare allowances and bonuses; aside from this, the rest is completely turned into fiscal revenue for the state via two forms: taxes and profits turned over to the state. Funds needed by the enterprises for technological transformation, the trial manufacture of new products, investment in construction, and so on, are all financed by appropriations out of fiscal funds. Under this fiscal system, the enterprises have very little financial power; almost all of their expenditures must be approved by the financial departments, so that the enterprises are subjected to very severe restriction. We call this fiscal system a system of eating "from the same big pot" marked by "centralized collection of revenue and centralized payment of expenses"; that is, all income is turned over to the state, spending depends on appropriations out of fiscal funds, and deficits are made good by fiscal subsidies. This system has strongly egalitarian characteristics. Whatever the results of operation of an enterprise, the wages and welfare for its workers are basically the same as for all other enterprises, so that the enterprises have no incentive to improve operation. In order to develop the enterprises' enthusiasm and initiative in production and operation, to enliven the national economy, and to improve economic efficiency, the guiding

principle of separating administrative authorities from enterprise authorities as a reform was put forth after the 3d Plenary Session of the 11th CPC Central Committee; according to this guiding principle, we must proceed from extending the enterprises' decisionmaking power and gradually turn the state enterprises into economic entities which carry out independent operation under the guidance of state planning. The key point in separating administrative authorities from enterprise authorities is that the relations of distribution between the state and the enterprise should undergo reforms, taxes should be substituted for profits turned over to the state, and relations of economic interests between administrative organs and the enterprises should be severed.

In the past, people thought that all the production and operation work of the state enterprises must be subjected to direct state planning, all profits must be turned over to the state, expenditures must be financed by appropriations from the state, deficits must be made good by state subsidies, and no other economic levers were needed. Taxes were regarded as similar to profits turned over to the state and as a source of fiscal revenue, and their role in regulating the national economy was ignored. With the gradual deepening of the reforms of our economic system, the forms of operation have changed; and with some units under ownership by the whole people being subjected to collective operation and some units under collective ownership being operated by individuals, the separation of the right of owning the means of production from the right of using them in operation (that is, the right of possessing, controlling, and using them) has become a common phenomenon; thus, the state enterprises will gradually change into economic entities which assume sole responsibility for profits and losses and which carry out independent operation under the guidance of state planning, with the workers' material interests dependent on the condition of operation of the enterprises. The turning over of profits to higher authorities no longer satisfies the needs pertinent to this form of operation, and substituting taxes for profit delivery has become an objective necessity.

Taxation and the turning over of profits to higher authorities are two different forms of distribution with different economic roles. Their own advantages and disadvantages will become manifest as our forms of economy change. Taxation is conducive to increasing the enterprises' decisionmaking power and strengthening the relative independence of the enterprises. Turning over profits to higher authorities is conducive to pooling fiscal revenue and strengthening the enterprises' relationship of subordination with the state. However, in the light of the requirements for developing new economic forms and quickening economic reforms, taxation surpasses turning over profits to higher authorities in its merits. This is reflected mainly in the following three aspects.

First, taxation is governed by law; there are statutory tax rates, so that the relations of distribution between the enterprise and the state are governed by clearly stipulated quantitative limits. Before undertaking a certain category of production and operation, an enterprise can ascertain the possible revenue in the light of the set tax rates, so that it can make numerical estimates and can direct its endeavors toward clearly defined goals. However, with the turning over of profits to the state, the proportion of retained profits is determined according to the enterprises' actual profits in the absence of any statutory quantitative limits; the proportion of profits turned over to the state varies directly with the actual amount of profits, and deficits are made

good by subsidies. This method makes it impossible for the enterprises to make quantitative estimates before undertaking production, is not conducive to encouraging the advanced and urging on the backward, and cannot help mobilize the enterprises' enthusiasm.

Second, taxation is not restricted by the relations of subordination governing the enterprises or by the enterprises' economic nature or modes of operation. In general, all enterprises directly pay taxes as required whether they are run by the central authorities or local authorities, whether they are under ownership by the whole people or under collective ownership, whether they are run by the collective or by the individual, and whether they do wholesale or retail work. The amount of taxes an enterprise must pay is not directly related to the relations of subordination governing it; this is advantageous to removing the barriers between localities or departments and this helps create conditions for the separation of administrative authorities from enterprise authorities. On the other hand, the calculation of profits turned over to higher authorities depends on the relations of subordination governing the enterprises, so that the operation of the enterprises concerned is linked to the economic interests of the higher authorities, the local authorities and departments will restrict the operation of the enterprises in the light of their own economic interests, and the development of the production and circulation of commodities cannot be promoted.

Third, taxation amounts to management through the legal system; and when an enterprise operates in a proper manner, and to be taxed in accordance with the regulations, it can enjoy normal economic interests, that is, after-tax profits will go to the enterprise. The enterprise can use its own profits according to the actual needs of production and operation and can enjoy decisionmaking power over the use of its own financial resources for quickening its [word indistinct] development. On the other hand, the turning over of profits to higher authorities amounts to some administrative management; the amount of profits achieved by the enterprise and the amount and uses of the retained profits must be examined and approved by the higher authorities or the financial departments. Before the year-end final accounts are examined and approved by the financial departments, an enterprise can only pay part of the welfare allowances and bonuses to the workers according to approved quotas and is not empowered to use its profits on its own, so that its development is restricted.

A thorough substitution of taxes for profits will convert the double-track system whereby taxation and the turning over of profits to higher authorities coexist into a single-track system of taxation only, so that the relationship between the enterprise and the financial authorities of the state will be basically changed and, aside from paying taxes to the state, the enterprise basically will no longer have any direct connections with fiscal revenue and expenditure. The more thorough the reform, the more thorough also will be the severing of such connections. Thus, conditions will be created for independent operation by the enterprises, for the assumption of sole responsibility for profits and losses by them, and for the launching of competition with all enterprises starting at roughly the same "starting line." The enterprises' material interests will then be directly linked to their profits and deficits, and they will no longer be able to eat "from the same big pot" provided by the state. Therefore, in the substitution of taxes for profits, the current reform differs in economic significance from past reforms. Basically, in the several tax-system reforms of the past, the categories of taxes

were reduced, different taxable items or tax rates were combined, and the tax system was simplified, so that the role of taxation was weakened. In the current tax-system reform, new categories of taxes are introduced, the classification of taxable items is made more elaborate, tax payments are substituted for profit delivery, and a complete tax system is established; these amount to a qualitative change in our tax reforms and enable taxation in our country to embark on a new stage of development. In the future, taxation will not only be the principal form of fiscal revenue, but will also be the main channel of economic relations between the state's fiscal authorities and the enterprise, so that the position and role of taxation in the national economy will basically change. In the building of the tax system at the current stage, not only must we consider the questions of fiscal revenue and relations of distribution between the state and the enterprise, but, what is more important, we must also consider the position and role of taxation in the national economy, so that a perfected tax system can be gradually established.

2. The Regulation-by-taxation System With Product Taxes at the Center Is Restored and Is Developing

In the second step of the reform of substituting tax payment for profit delivery, 11 new categories of taxes have been introduced. There were originally 10 categories of taxes, so that there are now 21 categories of industrial and commercial taxes in our country. These include commodity circulation taxes, income taxes, special taxes, local taxes, and so on. Judging from the roles of various categories of taxes and the revenue they yield, product taxes occupy the dominant position and represent the core in the building of the tax system. The tax system with product taxes as the center has been restored and is developing.

Product taxes are levied on commodities undergoing the circulation process. Levied generally on an ad valorem basis, they have many advantages. First, because they are levied on commodities undergoing the circulation process, policies encouraging or restricting the production of various products can be implemented through differential tax rates and different tax collection procedures. The production of those products which are important to the national economy and the people's livelihood and which are greatly needed by society can be encouraged by low tax rates, tax concessions, exemption from taxation, simplified tax collection procedures, and so on. On the other hand, the production of those products which are not beneficial to the national economy and the people's livelihood and which are not greatly needed by society can be restricted by high tax rates, tax surcharges, rigorous control through certain tax collection procedures, and so on. Thus, social production can develop in an orientation advantageous to the national economy and the people's livelihood. Second, because product taxes are levied on an ad valorem basis and are incorporated into product prices, certain irrational elements in some product prices can be regulated through differential tax rates and different links in tax collection, so that some contradictions due to irrational pricing can be alleviated. For example, higher tax rates for some overpriced products in excess supply can reduce the benefits which some enterprises reap by virtue of irrational prices. Lower tax rates or tax concessions for some underpriced products in short supply can reduce the losses which some enterprises suffer by virtue of irrational prices. Third, revenue from product taxes is in general not directly affected by the conditions of operation of the enterprises. All enterprises producing or dealing in taxable products must pay taxes according to regulations whether they are making profits or incurring deficits. This plays

an important role in ensuring a stable fiscal revenue. The reason why product taxes have these advantages is that they are levied on products undergoing the circulation process, so that the production and consumption of products can be regulated beforehand and the regulatory role of taxation can be more satisfactorily developed.

Each category of taxes has its own domain of efficacy and its own special functions, and cannot be replaced by any other category. When we talk about building a regulation-by-taxation system with product taxes as the center, we do not mean product taxes can replace the role of other taxes. The regulatory effects of taxation are achieved through the working of the tax system and no single category of taxes is omnipotent. The tax system requires that the tax rates and links of tax collection for various categories of taxes must be compatible with one another, must complement and must work in conjunction with one another, and must not work against one another. Product taxes must not replace income taxes; only the latter can regulate the actual incomes and replace income taxes; only the latter can regulate the actual incomes and consumption levels of various enterprises so that the after-tax profits of various enterprises tend to be equalized and an excessive inequality in income can be avoided.

Local taxes constitute an indispensable part of the regulation-by-taxation system. The abolition of the turning over of profits to higher authorities must be accompanied by the introduction of local taxes so that a source of financial revenue for the localities can be created and conditions can be created for the development of the localities. Local taxes cannot only ensure the availability of a source of financial revenue needed by the localities, but can also play an important role in coordinating the relationship between the enterprises and the governments of their localities. Although owing to a lack of suitable conditions not all of the four categories of local taxes which have been definitely instituted can be levied, all these taxes are constituents of the tax system and will in the future be levied step by step with the ripening of conditions.

In the past, people thought that taxation was a product of the private ownership of the means of production and a product of class struggle, that the state could levy taxes on non-state owners only but not on state enterprises, that state enterprises could only turn over profits to higher authorities because only such profits could embody state ownership, and that if the turning over of profits to higher authorities was replaced by taxation, the state could not be the owner of the enterprises. Actually, however, taxes on state enterprises are genuine taxes both in form and in essence; they not only embody various elements of taxation, but, what is more important, economically speaking they embody state ownership of the enterprises. Engels said: "The principle of taxation is essentially a purely communist one, because the state's right to levy taxes arises solely from the so-called system of state ownership."¹ To a socialist state-run

1. "Collected Works of Marx and Engels," "Speech Delivered in Ai-bei-fei-te [1947 0554 2431 3676]," Vol 2, p 615.

enterprise, the state is the owner of the means of production and the enterprise is an agent of operation; the separation of ownership right from the right to undertake operation causes taxes and profits to have different functions. Taxation embodies state ownership, but profits embody the interests of the agent of operation. According to the principle that the state should get a large share, the enterprise a medium share, and the individual a small share, it is natural that taxes occupy the dominant position (account for an overwhelming majority) in the distribution of the surplus product. The use of taxes, profits, and bonuses to reflect the relations of distribution of the surplus product between the state, the enterprise, and the individual is more advantageous to a correct handling of the economic interests of the three parties.

In the socialist economics of the past, the ownership of the means of production was confused with the right to operate them, it was thought that state enterprises must be directly run by the state because they are owned by the state, and the enterprises' independent decisionmaking power over operation was negated. It seems that if the enterprises become independently-run economic entities with the state levying taxes on them and with after-tax profits going to themselves, the state enterprises will become collective enterprises. Therefore, some people worry about a possible change in the nature of the state enterprises if taxes are substituted for profits. Practice has proved that with the substitution of taxes for profits and with taxation becoming the basic form of the state's fiscal revenue, there has neither been any change in the nature of the enterprises under ownership by the whole people nor any undermining of state ownership over the state enterprises; on the contrary, the enterprises' enthusiasm in operation has been mobilized and economic results have been improved. In 1983, for those industrial, communications, and commercial enterprises practicing the first step of the reform for substituting profits by taxes, their total realized profits were 63.3 billion yuan, an increase of 11.1 percent over the previous year; and the proportion of their retained profits as a percentage of the total amount of taxes and profits rose to 17.9 percent from 15.7 percent in the past. Out of the incremental profits, the state got a share of 61.8 percent, the enterprises got 24.9 percent, and the individual workers got 13.3 percent. With the improvement of economic results, the interests of the state, the collective, and the individual are continuously enhanced and the development of production is forcefully promoted.

Of course, the present plan for the second step of the reform for substituting tax payment for profit delivery is not perfect. There are shortcomings in the categories of taxes instituted, in the classification of taxable items, and in the grading of tax rates; in particular, there are serious contradictions in the institution of various categories of taxes which must be gradually brought to perfection in practice.

3. Let Us Put Forth New Tasks for the Study of Socialist Taxation Theory

Practice brings about the development of theory. Practice in substituting tax payment for profit delivery will inevitably cause changes in our ideology and understanding, create conditions for the development of taxation theory, and push the study of taxation theory forward into a new stage. Substituting tax payment for profit delivery is an important part of the entire reform of our economic system and is subordinated to the overall aim of building socialism with Chinese characteristics. The guidance of Marxist-Leninist theory is indispensable to the building of socialism; this is a truth which has been summed up from the practice of China's socialist revolution and construction. Undoubtedly, Marxism-Leninism must continue to develop amid practice and China's economic reforms and modernization will inevitably make new contributions to the development of Marxism-Leninism.

Taxation is a form of distribution of the surplus product; it depends on the level of development of the productive forces and on the forms of ownership, and exerts a strong reaction on the development of production. Marx said: "Relations of distribution merely reflect one aspect of production relations."¹ Substituting tax payment for profit delivery represents a change in the form of distribution. According to the Marxist-Leninist principle that the form of production determines the form of distribution, there are changes in our form of production which make the substitution of tax payment for profit delivery, as a reform in the form of distribution, an objective necessity. What are these changes? We need to explain this question by integrating theory with practice. If we do not understand this point, it will be difficult for us to deeply understand the significance of substituting tax payment for profit delivery.

In textbooks on the theory of finance written in the past, the necessity of socialist taxation is invariably explained in connection with the necessity of class struggle and the dictatorship of the proletariat, and taxation is linked to the state's function of exercising dictatorship. The development of taxation implies the strengthening of the dictatorship function, and conversely the strengthening of the dictatorship function will also inevitably lead to an increased scale of taxation. To sum up, economic relations are explained in terms of political power, and this is not a historical materialist viewpoint. Substituting taxes for profits is not for the sake of strengthening the state's dictatorship function or increasing the state's political power, but is caused by changes in the forms of production and operation. At the First Session of the Sixth NPC, Premier Zhao Ziyang said in his Government Work Report: "The aim of various reforms is to overcome the shortcomings and defects of our existing system which hinder the development of social productive forces, to gradually create a new economic system suited to our national conditions, and to build socialism with Chinese characteristics."² The basic principle of reform is to separate administrative authorities from enterprise authorities, to reduce the currently excessive intervention in the enterprises' affairs by state organs, to establish respect for objective economic laws, and to promote the development of the productive forces.

An important task facing us is how we can correctly use the basic principles of Marxism-Leninism, while integrating their with practice, to explain the economic reasons for the existence and development of socialist taxation, and to explain the nature and role of socialist taxation and the differences between it and capitalist taxation. Theory must be compatible with the objective process of economic development and must reflect the essence of things, instead of being a summary of daily affairs or a conglomeration of various phenomena. We must neither hold fast to old viewpoints nor proceed from some transient needs. We must realistically analyze the process of development of economic relations, grasp the essential relations, and thus create a new theory to provide a theoretical basis for the building of a tax system in the new stage.

1. "Das Kapital," People's Publishing House, 1975 edition, Vol 3, p 999.

2. "Government Work Report," People's Publishing House, 1983 edition, p 26.

Every form of economy must undergo a historical process of formation and development; in the beginning, it is invariably neither perfect nor pure, bearing the vestiges of old things. The second step in the reform for substituting tax payment for profit delivery is no exception. This is because every form of economy is a product of the combined action of various factors and is closely related to people's ideology and understanding. For example, the regulatory tax whereby each enterprise is charged a different rate basically preserves the essence of the method of retaining a specified proportion of the profits; theoretically this means that the reform is not thorough, but from the viewpoint of practice this is a result of contradictions in interests between various parties and is hardly avoidable at present. Nevertheless, the qualitative change embodied in the second step of the reform must not be negated just because the reform is not thorough. Thoroughness or a lack of thoroughness are matters of degree. If we do not gloss over the defects of the reform, it will gradually develop in depth and we can build a perfect tax system in 3 to 5 years.

The building of our tax system must entail a theoretical basis. Nothing can last long without a theoretical basis. Our future task is to promote reforms and make contributions to the building of a tax system with Chinese characteristics on the basis of thoroughly studying the theory of socialist taxation.

CSO: 4006/29

MINERAL RESOURCES

GEOLOGICAL DATA ON CHINA PUBLISHED

HK260640 Beijing RENMIN RIBAO in Chinese 22 Sep 84 p 1

["Facts and Figures" column compiled from data supplied by the Ministry of Geology and Minerals: "Geological Pacesetters Conduct Extensive and Intensive Surveys Throughout the Country"—capitalized passages published in boldface]

[Text] CHINA HAS A FAIRLY GREAT VARIETY OF MINERALS AND IS QUITE RICH IN MINERAL RESOURCES. Since the founding of the PRC, China has ascertained the reserves of 15,750 mining areas. By 1983, the reserves of 136 minerals had been proved. China has 90 percent of the more than 150 minerals in the world whose reserves have been proved. The reserves of 13 minerals, including rare-earth element, tungsten, and antimony, rank first in the world; the reserves of eight minerals, including coal, molybdenum, tantalum, and niobium, rank second to third in the world; and the reserves of four minerals, including iron and nickel, rank fourth or fifth in the world.

VARIOUS DATA HAVE BEEN PROVIDED FOR THE MANAGEMENT OF LAND. By 1983, China had completed the evaluation of 800 billion cubic meters of underground water resources per year, accounting for about one-third of China's total water resources; completed the hydrogeological reconnaissance survey of 6.7 million square kilometers of land at the scales of from 1:200,000 to 1:500,000 and the hydrogeological detailed survey of 1.1 million square kilometers of farm land and pastureland at the scales of from 1:50,000 to 1:100,000; completed the hydrogeological engineering geological, and environmental geological evaluation of more than 100 big and medium-sized cities; completed hydrogeological and engineering geological prospecting for several thousand big, medium-sized, and small reservoirs, such as the three gorges in the Changjiang, Sanmenxia, Foziling, Danjiangkou, and Guanting, for more than 70 railway and bridge projects, and for several thousand factories and mines; carried out the evaluation and comprehensive utilization of geothermal energy resources in Beijing, Tianjin, Xizang, Yangbajing, and other places and investigated more than 2,500 geothermal energy sites throughout the country.

GREATER CONTRIBUTIONS HAVE BEEN MADE FOR THE DISCOVERY OF MORE MINES AND OIL. By 1983, 1,228 mineral deposits of industrial value and mines with long-term industrial prospects had been discovered in the course of investigating regional geology. Of these, 232 are large- and medium-sized mineral deposits or mines. The reconnaissance oil survey completed accounts for 78.4 percent of the areas where sedimentary rocks are scattered throughout the country and 291 oil and gas fields have been discovered in 22 provinces, autonomous regions, and municipalities. Geological survey of the Bo Hai, Huang Hai, Dong Hai, and Nan Hai and most sea areas has been completed.

INDUSTRY

RECORD FIRST QUARTER FOR SHANGHAI TEXTILE INDUSTRY REPORTED

Shanghai JIEFANG RIBAO in Chinese 14 Apr 84 p 1

[Article: "Adverse Trend in Output Value and Profits Has Begun To Turn Around; Shanghai Textile Industry Opposes Arrogance, Overcome Difficulties, Improves Economic Results; Simultaneous Increase in Profits and Output Value Realized in First Quarter"]

[Text] Shanghai's textile industry has made outstanding strides in the first quarter of this year: total output value surpassed last year's first quarter totals by 30 percent, for the highest first quarter output ever. Profits calculated according to specifications and output value increased simultaneously, such that the adverse trend in output and profits of recent years has begun to turn around. Urgently needed and scarce goods such as coarse woolen fabric, woolen blankets, and polyester and cotton prints are now appearing on the market in increasing numbers.

Beginning this year, (?the textile) bureau has correctly handled the relationship between party rectification and production during the party rectification campaign. Taking economic construction as the core, it has firmly come to grips with production in the first quarter by opposing ideological arrogance and tackling operational problems. The bureau leadership has studied the new situation and tasks facing Shanghai's textile industry this year and has delineated four "problems" concerning production: the problem of increasing textile production, the problem of exports for sale abroad or in other parts of China, the interrelated problem of price adjustment and profits, and the problem of making proper arrangements when chemical fibers come apart. To deal with contradictions the bureau leadership has motivated workers and staff throughout the bureau to "come to grips with things ahead of schedule, swiftly turn things around, give due consideration to the bureau as a whole, and strive for results" in their work, and to employ every means possible to promote the development of production. They increased production so as to supplement areas throughout the country whose planning was inadequate and sold domestic goods in regions where foreign trade was insufficient. Where quarterly planning was inadequate they supplemented it with the annual plan and mapped out a strategy of independent marketing where procurement channels were insufficient. All of these helped avoid waste of productive capacity. They multiplied or discontinued products according to market demand as quickly as possible, and they industriously developed new products or increased old ones to meet the demands of the marketplace.

This bureau continued to proceed from the premise of national interest in cooperating with the foreign trade sector to increase exports. In the first quarter a total of 44 major products earned profits that would amount to 50 million yuan for the entire year--a great boost to developing exports. In order to prevent shrinking of economic results, they have undertaken various remedial measures such as developing products that are easily mass produced and have high output value, cutting down on losses incurred in the transformation from foreign to domestic production, cutting down on wasted effort, rationalizing the industrial structure, and strengthening coordination within the Shanghai economic zone. As a consequence, production grew and economic results improved in the first quarter of 1984.

12681

CSO: 4006/596

INDUSTRY

BRIEFS

TECHNICAL CONSULTING FIRM OPENED--Chongqing, 25 September (XINHUA)--A new company promoting international economic and technical exchanges was launched today in Chongqing, Sichuan Province. The Chongqing International Technical Consultancy Company will import technology and equipment and provide foreign economic, technical and managerial data. It will help upgrade technology and products of Chongqing's small and medium-sized enterprises. Chongqing is now empowered to hold negotiations and sign contracts on its own with foreign firms following reform of its management system last year. The city now administers 12 counties and has an urban and rural population of 13.7 million. It is the biggest industrial and trade center in the country's southwest. [Text] [Beijing XINHUA in English 1211 GMT 25 Sep 84 OW]

CSO: 4010/08

CONSTRUCTION

DISCUSSION ON REFORMING CAPITAL CONSTRUCTION

HK260845 Beijing JINGJI GUANLI in Chinese No 8, 5 Aug 84 pp 17-19

[Article by Wu Ling [0702 0407]: "Lump-Sum Payment After Completion of Construction Is a Major Reform in Capital Construction Management"]

[Text] Leading comrades from the CPC Central Committee recently suggested that lump-sum payment be made after completion of construction as a move to commercialize the products of construction. This suggestion is no doubt a major reform in the economic work of capital construction. The related departments are now carrying out study and investigation in this aspect while some places have already carried out experiments. In order to carry out this reform smoothly, it is imperative to correctly appraise the lump-sum payment after completion of construction and solve various problems that may be encountered in this work.

I. The Orientation of Lump-Sum Payment After Completion of Construction Is Correct

For a long time, people have considered that payment for construction products is different from ordinary products because the former requires a longer production period and higher costs. Therefore, the using practice is that prepayment for materials is made before the start of construction projects, further payment will be made monthly and separately according to the progress of the projects, and overall payment will be made after the completion of the whole project. The emergence of this payment method has its own historical background and its own reasons. But in practice, it has many defects. For example, some building enterprises have arbitrarily signed contracts in a bid to get prepayment for materials but after they have received this payment, they do not start the construction for a certain period; some building units are not really concerned with construction after they have received prepayment, in addition, they also prolong the period of construction and as a result, the construction cannot be completed for a long period; and disputes often occur between building enterprises and construction units over prepayment for materials and payment for projects. The related departments have taken certain measures to solve these problems such as giving awards for completion of construction in advance; but these measures are ineffective. The basic reasons for the emergence of these problems are that people have neglected the commodity nature of construction projects and that construction products have been artificially divided into several projects and, as a result, the partial projects that are exchanged (when prepayment for materials and payment for projects are made) are not in a position to independently display their economic results and these projects are in fact semi-finished products that have no use value.

Before we are able to basically resolve these problems, the practice of making prepayment for materials and payment for projects must be gradually abolished. And it must be replaced by the method by which construction banks will concentrate the capital construction funds that come from construction units at prepayment for materials and payment for projects and recover the working capital that is allocated by financial departments to building enterprises. These banks will then provide to building enterprises all working capital loans, including construction bank loan funds, that are needed for getting materials and are required during the construction. And after the completion and acceptance of the whole project, the building enterprises can get lump-sum payment from construction units, and with this payment, the former can pay back bank loans. In this way, construction products are commercialized.

There are advantages in making lump-sum payment after the completion of construction.

First, this practice is in the interest of strengthening the economic responsibility of building enterprises so that they will spare no effort to complete projects as early as possible. In the past when payment was made on the basis of separate parts of projects, the related building enterprises were often not enthusiastic about the later parts of the projects, particularly winding up parts. They are often unwilling to take the initiative in winding up projects. On the other hand, they concentrate their attention on the complete projects that are easy to be carried out and that offer higher payment. As a result of the unwillingness of building enterprises to wind up projects, the period of the whole project will consequently be prolonged and the number of projects under construction will increase. With the introduction of lump-sum payment after the completion of construction, building enterprises can receive payment only after the completion of the whole project and in this way, the exchange of value is realized. This practice also means that the projects that have not been completed will constitute a pressure on the building enterprises, which will consequently take active measures to guarantee the continuous execution of the projects and will complete them at the earliest possible time.

Second, it helps to speed up the circulation of working capital and it helps to improve comprehensive economic results. With the introduction of the method of lump-sum payment after completion of construction, building enterprises cannot but strengthen their economic responsibility system to step up the progress of projects and vigorously apply overall methods, complete technology, and assembly line methods in rationally organize construction, shorten the construction period, and decrease the number of the projects that are under construction. In this way, we will be able to decrease the amount of working capital possessed by building enterprises, reduce interest on working capital and save a considerable amount of ordinary expenses. In addition, we will also be able to coordinate and help construction units to curtail the number of projects under construction. As a result, construction items will be completed, checked and tested, and handed over at the earliest possible time so that these items will soon become comprehensive productive forces displaying the efficiency of investment, shorten the period for recovering investment in capital construction, and really realize the combination of high speed and results.

Third, it is in the interest of promoting the reform of the goods and materials supply system in capital construction to enable building enterprises to get credit for all of their working capital. The premise for the introduction of lump-sum payment after the completion of construction is that no prepayment is made for either materials or projects and all the working capital needed by building enterprises comes from bank loans. But the building enterprises in most regions are still using the method of receiving prepayment for materials. Only [word indistinct] building enterprises in some regions have experimented with the system of "medium working capital" and according to this system, building enterprises will get the materials ready by themselves (excluding the three major categories of materials). One or two regions have experimented with the system of "big working capital" which means that all the materials needed are prepared by building enterprises. This method is much different from the method by which all the working capital needed comes from credit. The implementation of lump-sum payment after completion of construction will enable building enterprises to closely coordinate with goods and materials supply departments, construction units, and construction banks, change the present situation in which the "three major materials" are provided to a construction unit, which uses the materials provided by many other units and instead, the goods and materials supply departments for capital construction will base themselves on the progress of construction and supply building enterprises and sites with materials. In this way, the reform of working capital will be quickened to promote the introduction of lump-sum payment after the completion of construction and the abolishment of prepayment for materials. In this way, the credit for all working capital will be granted once and for all.

Fourth, it is in the interest of simplifying the procedures for payment for materials and construction to prevent the unhealthy practice whereby construction units apportion at will. At present building enterprises and construction units often dispute with one another over the amount of payment for materials, the calculation of the payment for the projects that have been completed, and deductions for materials. Certain building enterprises do not follow the related rules and regulations, deliberately complicate matters, and collect the so-called "payment for rushing the job through." Some building enterprises have even gone so far as to put pressure on construction units to make investment. Following the introduction of lump-sum payment after completion of construction, building enterprises must strictly follow the pre-signed building contracts, be responsible for the building period, quality, and cost, and carry out calculation after the completion of the project. In this way, building enterprises cannot wilfully make trouble and irrationally collect payment from construction units; nor can construction units wilfully refuse to make payment. And this situation is in the interest of improving relations between building enterprises and construction units and promoting the economic responsibility that includes the responsibility for investment.

II. The Problems That Have To Be Resolved Following Lump-Sum Payment After Completion of Construction

The introduction of lump-sum payment after completion of construction will involve construction units, building enterprises, construction banks, finance, planning, statistics, and goods and materials departments and it will influence capital,

costs, interest rates, amount of investment, planning, and goods and materials and other factors. All the departments concerned must be subordinate to the whole of reform and in addition, they must also pay attention to mutually coordinating themselves, supplement each other, give consideration to various factors and defend normal work orders so that the reform will be carried out smoothly. Therefore, it is imperative to conscientiously solve the following:

First, the supply of working capital to building enterprises. Following the introduction of lump-sum payment after completion of construction, building enterprises must rely on their own effort to raise reserved capital, production capital, capital for settling accounts, and currency capital. And the premise for lump-sum payment after completion of construction is that building enterprises must have sources of working capital. At present, building enterprises have little working capital of their own; with the exception of some building enterprises that have experimented with the "medium working capital" and "big working capital" systems, the majority of building enterprises do not have enough fixed quota working capital even for getting materials ready. That is to say, the capital that is needed in this aspect comes from prepayment from construction units, from monthly payment from construction units that is based on the progress of projects and from short-term bank loans. The capital is mainly supplied by construction units, construction banks, and finance departments. Following the introduction of lump-sum payment after completion of construction, all the working capital that is needed by building enterprises will be supplied by construction banks. Construction banks must be able to guarantee the needs of building enterprises in ordinary and long-period fixed quota working capital as well as the temporary and seasonal needs of fixed quota working capital of such enterprises. Therefore, it is imperative for construction banks to closely coordinate and consult with financial and other concerned departments. The purpose of this coordination and consultation is to turn all the working capital for materials and construction of construction units and all the working capital of building enterprises into the working capital credit funds of construction banks. At the same time it is also imperative to absorb more bank deposits, take active measures to raise capital, strengthen credit planning, pay attention to equilibrium, and flexibly regulate funds. In this way, we will be able to provide working capital loans according to the progress of projects and guarantee the needs for the circulation of working capital for building enterprises.

Second, the sources of interest on the loans for the working capital of building enterprises. Following the introduction of the system of lump-sum payment after completion of construction, building enterprises must have loans from banks for all their working capital. The possession of capital will be changed from having no compensation to being compensatory, that is, the borrowers of loans have to pay interest. At present, the profit rate of building enterprises is too low. Most regions have not been able to introduce substitution of taxation for profit delivery and it will be difficult for building enterprises to solve the problem of interest by relying on cutting costs; if this interest is included in the project budget so that the project cost is raised, it will be against the needs of reducing project costs. Therefore, solving the sources of interest on the loans for the working capital of building enterprises represents a big obstacle for lump-sum payment after completion of construction and this question must be resolved well. Lump-sum payment after completion of construction means that construction units will be able to make material and project payments later than

usual. If the capital of construction units comes from the loans for capital construction, it means that construction units will pay less interest. But if the capital is raised by construction units themselves, it means that these units will pay more interest. The fact that construction units pay less interest or receive a sum of interest is not the result of their own efforts; it is unexpected income as a result of the introduction of lump-sum payment after completion of construction. Therefore, this part of income must be given to building enterprises as part of the sources of their interest. The construction units that still receive budgetary allocation must in future change this allocation to loan. It is also practical at present when reform has not been carried out to collect a certain amount of interest from construction units. In short, we cannot give all the benefits to construction units because of the introduction of lump-sum payment after completion of construction and add the burden to building enterprises. But the interest collected by building enterprises from construction units is not necessarily equivalent to the interest they give to the construction banks. In this way, building enterprises will spare no effort to quicken the circulation of working capital and decrease costs.

Third, the calculation of the amount of the investment already used by construction units. Following the introduction of lump-sum payment after completion of construction, the financial situation of construction units is no longer in a position to reflect the volume of the work of the completed partial projects; nor are the statistics still in a position to reflect the amount of investment already used in the projects under construction. In this way, the amount of investment already used by construction units following lump-sum payment after completion of construction is not in a position to really reflect the scale of the investment in fixed assets. This situation will cover up certain regions and departments using more than it planned for capital construction and consequently the scale of the investment in fixed assets will be out of control. There are two methods for solving this problem. One method is that building enterprises may report monthly to construction units the investment already used for the partial projects that have been completed. Construction units will report to the higher department the report from building enterprises and the amount of the investment for the completed projects that has been paid. Another method is that construction units may transfer part of the investment plan to building enterprises; these building enterprises will report the amount of the investment already used to higher departments. In this way, the calculation and statistics for the amount of the investment already used will be basically resolved. Comparatively, the latter method is more practical. Following the basically smooth growth of the national economy, if part of the investment plan is gradually shifted to building enterprises so that the scale of investment will be reflected through the two channels of building enterprises and construction units, the problem can be solved more easily.

Fourth, checking fixed quotas for the working capital of building enterprises. Following the introduction of lump-sum payment after completion of construction, the extension of fixed quotas for the working capital of building enterprises will be increased. The economic factors for fixing the amount not only include currency capital and reserved capital but also production capital and closing account capital, particularly, following the expanded volume of projects under construction. There are many factors making up production capital. If we use a calculation method based on factors, the calculations will be tedious and complicated. In addition, as different projects need different lengths of time and

the [word indistinct] of projects are unstable, it is difficult for fixed quotas to precisely reflect the objective reality and under this condition, the use of building enterprise capital will be affected. On the basis of doing rough accounts externally and meticulous accounts internally, we can predict the average possession of working capital or use the average advanced level of the possession of working capital to determine the fixed quotas of the working capital of building enterprises. Following changes of the management level and technological level (of building enterprises), it is necessary to carry out readjustment regularly so that the fixed quotas of working capital will be closer to reality.

In short, we still do not have experience in introducing lump-sum payment after completion of construction. Therefore, while it is imperative to fully predict the difficulties and problems that may be encountered, it is also imperative to demand that various sectors spare no effort to create the conditions for the reform. We have to study this question in the process of experimentation and sum up experiences so that the work of introducing lump-sum payment after completion of construction can be gradually perfected.

CSO: 4006/29

DOMESTIC TRADE

ECONOMIC RESULTS INCREASED BY PREVENTING OVERSTOCKING

Beijing SHANGYE KUAIJI [BUSINESS ACCOUNTING] in Chinese No 5, 10 Jun 84
pp 14-15

[Article by Tian Ye [3944 6851] and Li Zhilong [2621 1807 7893] of the Financial Department of the Supply and Marketing Cooperative of Shanxi Province: "Maintain an Appropriate Stock, Improve Enterprises' Economic Results"]

[Text] In recent years, there has been a big increase in the amount of circulating funds used by Shanxi's supply and marketing cooperatives. By the end of 1983, it had increased by 12.5 percent, which exceeded the rate of increase of total sales. As a result, interest on loans and prices went up and interest on circulating funds decreased. According to statistics, the 1983 interest on circulating funds was 3.95 percent for the province's basic-level supply and marketing cooperatives. It was 2.96 percent lower than that of 1979, which was the highest on record. The range of decrease was 42.8 percent, thus seriously affecting the enterprises' economic results. The situation was due to overstocking on the part of the local cooperatives. Twenty percent of their stock was unsalable goods. In order to increase economic results, it has become an urgent task for the cooperatives to transform their stock into appropriate ones.

I. Main Causes of Overstocking

Excessive use of circulating funds has its expression in the increasing stock of industrial goods. By the end of 1983, industrial goods in stock had increased by 35.5 percent, compared to that of the same period in 1979. In the meantime, bank loans had increased by 93 percent, both surpassing the increased rate of total sales. The interest paid on loans accounted for 90 percent of the profit. If the stock were reduced by 20 percent, 6 million yuan would have been saved out of the annual interest on loans. Cooperatives suffer serious losses from overstocking. In 1982, the province sold 110 million yuan worth of unsalable goods at reduced prices at a loss of more than 40 million yuan. In 1983, unsalable goods again increased by a big margin. They were again sold at reduced prices and the loss was more than 16 million yuan. Overstocking and inappropriate stock composition are due to:

1. Buying large quantities of slow-selling goods due to poor management. Commodity circulation has increased and the market has become brisk since the

implementation of the new policy within the business circle: conducting business through different channels and simplifying transaction procedures. Quite a few enterprises, however, fail to adapt themselves to the changed situation. Sticking to the old ways and rules, they fail to calculate the need of the market and are ill-informed about the situation of production. Hoping to make a large profit, they will buy large commodities, try to buy and sell in large quantities and purchase blindly from outside the province. All this causes overstocking. Take one cooperative in Hongdong County, for example. It bought from Guangdong 485 watches of a lesser known and inferior brand, 1,200 necklaces and 1,700 plastic hairpins in a single purchase, altogether worth 54,000 yuan. The goods were not sold out within a period of 2-3 years. So far there are still 176 watches left in stock with a value of 17,000 yuan. There has been absolutely no market for the necklaces and the hairpins. If they were sold at reduced prices, the loss would be 60 percent in terms of the purchasing price. Some purchasing agents receive special treatment from suppliers of commodities. They enjoy privileges such as better food during business meetings, free trips to places of interest, free samples and cheap local specialties. In return, they buy the suppliers expensive goods of poor quality for considerations of "face" and "relationship."

Some years ago, commodities used to be in short supply, which led some people to believe that "a princess does not have to worry about becoming an old maid." Due to the influence of this idea, which has not been completely eliminated, some goods that have a ready market are not sold promptly. Though in great demand, commodities such as wine and cigarettes are not put up for sale after purchase but are kept in stock instead. The head of an enterprise is the one in control. He waits for the right time to sell. In the meantime, he spends time filling documents, using the goods as a means of developing connections or giving special permission for someone to buy them before everyone else. Commodities that are in great demand are, therefore, kept in the warehouses.

2. Unchecked industrial production and local administrative, interference in business also affect normal business. Production determines circulation. Our system of planning and management is not perfect. Some regions blindly develop a manufacturing industry which brings them a large profit. They build factories which produce bicycles of inferior brand and quality, watches and local cigarettes, etc. Technically unqualified, the factories produce commodities that fail to live up to certain quality standards. Because of their high price and poor quality, they are unsalable the moment they are made. Those who have to buy them are left with an unmarketable stock.

Because a large number of cooperatives are set up according to the division of administrative regions, the local government interferes with their business. For example, to protect the local cigarette industry, several departments once speculated that starting from 1 July 1983, local stores could sell only local cigarettes. They were not allowed to buy products from other places, except when it was within the province's own purchasing plan. The local products were of such poor quality that they were unmarketable. Local party or governmental institutions interfere with commodity distribution whether it be within

the domain of a company at the provincial level or a local cooperative. For instance, when popular goods such as bicycles and sewing machines are purchased, a certain department of the provincial government will decide how to distribute them. The same pattern is followed in every region, county and commune. From top to bottom, it takes a bicycle 10 to 12 months to reach the customers. Commodities that have a ready market are thus kept in stock for a long time.

3. Overstocking when retail stores are required to purchase unmarketable goods as a condition for buying commodities of good quality. This is done in many ways. For its own interests, some wholesale departments refuse to sell to the retailers goods that have a ready market unless they agree to buy a certain number of slow-selling goods. Some factories make similar requests. These slow-selling commodities include groceries, general merchandise and textiles. The amount of such commodities imposed upon the retailers is increasing in proportion. Take the town cooperative of Da Ning County, for example. It has to purchase 25,000 balloons in order to buy 120 sewing machines, which means 2 balloons for each person in the county. The cooperative failed to sell the balloons which are now in stock and the quality of which is deteriorating with time. Even worse is the request to buy cigarettes. One has to purchase four or five boxes of poor cigarettes in order to get one box of good ones. The basic-level cooperatives which are unable to sell the unmarketable commodities have to put them in stock. The stock composition, therefore, becomes inappropriate. Some retailers make the same request of their customers who would rather go without the popular merchandise than buy the expensive goods of poor quality. As a result, the cooperatives can sell neither the good nor the poor commodities. In addition, the store's commercial reputation suffers.

4. In order to make more profit and to gain more bonuses, the cooperatives do not adopt active measures to dispose of the old stock. Ever since the implementation of the policy that the cooperatives can retain a certain portion of the profit and the employees can share among themselves the extra profit, some businesses have been concerned with fulfilling the quota for profit and sales volume. They are reluctant to dispose of the old stock by selling it at a reduced price, which means a decrease in that year's profit and in the amount of the bonuses received by the employees. Old stock is not disposed of promptly due to their concern about present interests at the expense of long-term interests. Unmarketable goods accumulate in stock as time passes. With some businesses, unsalable commodities make up 40 percent of the whole stock.

II. Ways of Improving Stock Composition

1. Enhance management of purchase and stop blind buying of commodities. The cooperative's present plan for purchase exist only in name and not in reality. To improve stock composition, one should first implement more effective management over purchase and develop an implementable purchasing plan. Second, one should enhance market calculation so as to be kept informed of the situation of sources of supply. One should also investigate the power of purchase at the market and the directions and tendencies of commodity development. One

should act according to the plan for purchase, whereas the time and quantity of purchases should be decided by the sales volume, which is the reliable scientific basis for making purchasing plans. A purchasing plan should include not only a general quota but also classifications of commodities, size, color and variety in detail. There should be a balanced purchase with more varieties and a small quantity of each kind. Each cooperative and each counter in a cooperative should have its own plan of purchase, which should be carried out by each purchasing agent. Only in this way can one "prevent illnesses from finding its way through the mouth."

2. Establish a responsibility system for using circulation funds, and raise the standard for bonuses and examinations. There are some problems concerning the present responsibility systems of the cooperatives. For instance, responsibilities are not clearly defined, the sales volume is set too low and the criteria for evaluation are not perfect. All these cause an inequitable distribution of bonuses. It is necessary to improve the responsibility system. A cooperative should not only make a general plan for using circulating funds but also stipulate the amount of funds available for each warehouse, counter and purchasing agent. There should be a routine assessment and strict evaluation. Fund circulation and the fulfillment of a planned circulation rate should be considered as important criteria for granting bonuses so that employees' personal interests will be directly affected by the management of funds. Everyone will be concerned about the cooperative's spending of every penny in protecting his or her own interests. In addition to defining the amount of funds available for each purchasing agent, a cooperative should also help improve his or her political consciousness so as to eliminate wrong tendencies in business transactions and to prevent the purchase of inferior commodities at a high price.

3. Dispose of unmarketable commodities promptly to prevent overstocking. Slow-selling commodities are inevitable in the process of production and circulation, especially with a continuous increase in the color and variety of commodities and a rapidly changing market due to scientific development and growth in production. Also, we may fail to keep up with the changes in the objective world. Mistakes we make during business transactions may also bring in slow-selling goods. The question is how to deal with them. As mentioned above, some businesses hide and neglect them or procrastinate instead of disposing of them promptly. Unsalable goods accumulate with time. Like a rolling snowball, overstocking leads to a series of consequences: the more circulating funds it takes up, the higher the interest rate, and business becomes stagnant at the end and it will be impossible to increase economic results. We believe that the active way in dealing with overstocking is to take prompt measures to get rid of slow-selling commodities, whether it be one commodity or a whole bunch. As long as one wastes no time in doing so, old stock will not affect economic results. On the one hand, a prompt disposal of unsalable goods reduces the size of stock and the charge for interest, thus preventing further losses. On the other hand, it transforms dead capital into circulating funds and enables the businesses to increase their sales volume and to make more profit. Prompt disposal of slow-selling goods is an effective way of overcoming overstocking and improving economic results as well as an important mark of a lively business and strong management.

FOREIGN TRADE AND INVESTMENT

GAO YANGWEN ON FOREIGN TRADE

AU021626 Warsaw POLITYKA in Polish 29 Sep 84 p 14

[Interview with Gao Yangwen, PRC minister of coal industry, by Jerzy Loch: "Economy, Coal, and ... Sunday Painters"; date not given, in Poland]

[Text] [Loch] You are the minister of coal industry and cochairman of the Polish-Chinese Committee for Economic and Scientific-Technical Cooperation. What prospects do you see for Polish-Chinese cooperation?

[Gao Yangwen] Sino-Polish friendship has long-standing traditions, but our economic contacts began in the fifties when we asked you to help us to solve many economic problems facing the people's authorities of China. This cooperation proved to be mutually beneficial and successful and has stood the test of time, especially in mining.

[Loch] Why is it then that China reduced imports of machines and equipment in 1981? This led to reductions in Polish exports, 60-70 percent of which are accounted for by machines and equipment, mainly mining machines and equipment.

[Gao Yangwen] In 1981 we began running the economy on new lines and sorting out our investments. The 12th CCP Congress in 1980 decided that China's development should be speeded up so that by the end of this century industrial and farm production should increase fourfold. We began to implement the program of four lines of modernization--industry, agriculture, science and technology, and defense. The implementation of this program will greatly raise the living standards in our country, which should achieve middle-of-the-road prosperity up to the year 2000.

[Loch] The world has been startled by China's sudden opening-up in all spheres, including the economy.

[Gao Yangwen] This is a result of that development program, which initiated the economic reform in China. Our enterprises have won a large measure of independence and make most decisions on the strength of business calculations. We have also changed the system of financing. Before the economic reform our enterprises were not shy to help themselves to the state budget funds, but now they must earn their money on their own. At present, the government issues only the most general directives, but enterprises must choose their own detailed solutions. If it is evident that a given undertaking costs less if it is carried out in cooperation with foreign countries, we sign the necessary contracts with them.

As for international economic relations, we have abandoned a centralized approach to them. Now ministries determine lines of cooperation with foreign countries, and provinces have been granted the necessary powers to sign contracts with them. In a word, the opening-up in question is a result of the changes that are taking place in our country in this decade.

[Loch] An upshot of these changes is the reanimation of China's contacts with the socialist countries. At the end of the seventies China's trade with the CEMA countries accounted for only 10 percent of all its foreign trade. This was very little indeed, if we realize that Hong Kong's share in your foreign trade amounted to 12 percent at that time, and if we compared Hong Kong's production potential with that of the CEMA countries.

[Gao Yangwen] Yes, this reorientation is a fact now. A series of visits made by Comrade Mrs Chen Muhua, minister of foreign economic relations and trade, to CEMA countries is the best proof that we want to continue and develop this reorientation. Mrs Chen Muhua was in Poland last July and signed an accord on economic and technical cooperation and a protocol setting up the Committee for Sino-Polish Cooperation, of which I am a cochairman, as you have noted. It is worth stressing in this connection that, after years of signing accords for just 1 year, this time a 10-year agreement was signed, which augurs well for our cooperation as it is no longer looked on as something temporary.

[Loch] Nevertheless, China's share in Polish trade accounts for less than 1 percent.

[Gao Yangwen] Even the scope of the negotiations that our delegation is now having with your coal mining department indicates that our trade will increase. The fourfold increase in production I spoke about calls for new investments and for modernizing the old ones. We plan to build about 400 plants, which we will have to provide electric power. That is why our modernization program primarily concerns mining and energy. Up to the year 2000, we plan to increase coal production from 700 to 1.2 billion metric tons a year. We will construct deep and open mines and coal-enriching plants next to them. We must also develop the mining machine-building industry. In all these commitments, we count on Poland's cooperation in the supply of machines and equipment and in the construction of mines and processing plants. We also count on your cooperation insofar as the production of these mines and plants is concerned. We envisage the development of joint companies, of which the Sino-Polish Cipolbrok company is a good example. This company has been in operation since 1951. We are most pleased with the quality of Polish mining equipment, which has passed the test under our conditions. This is why we want to buy another set of this equipment.

[Loch] What kind of equipment?

[Gao Yangwen] Mining combines, wall supporters, conveyor belt transporters, fire extinguishers, fire-damp detectors, and the necessary spare parts. Last year we spent over 9 million Swiss francs on this equipment, but this year we have already contracted it to the tune of over 30 million Swiss francs. In the next 5 years we want to buy a large number of wall supporters. These purchases will increase our trade. We would also like to establish cooperative links with our Polish partners in the supply of those supporters. Why should we transport heavy machines and equipment if a part of them and some of their elements can be

produced on the spot under the guidance of Polish experts, using Polish technology. I would like to stress that we continue to develop our mining primarily under our own steam and with the help of our own machines, but in view of the planned expansion of mining our own resources are not enough, and we have to resort to imports.

[Loch] Do you take advantage of the knowhow of Polish specialists?

[Gao Yangwen] We do take advantage of the knowhow of Polish designers and engineers. We also use your technical assistance in putting out fires in mines. Lately we have taken advantage of Polish experience in training our cadres. Groups of several mine managers and controllers are at present attending two 2-month courses in Poland.

[Loch] Minister, you are the author of many publications on mining and energy. What is your view of the future of coal in meeting mankind's energy needs?

[Gao Yangwen] I think that coal will be the basic means of energy for a long time to come. Crude oil deposits will be exhausted within 100 years, but coal will last for several hundred years. However, I think that such large deposits of coal do not entitle anyone to waste coal. We continue to develop the extraction of coal, but we also promote active measures to reduce its use in production. Since we do not want to stick to just one kind of energy, we are also developing water power and the extraction of oil and gas. We will be promoting the extraction of gas even at a time when our coal production will have increased twofold and oil production fourfold. As we have to pay for many investment goods with foreign exchange, we have to export coal and crude oil to obtain this exchange. We would like to increase the export of oil to a greater extent, because it is technically easier to do so, and to meet the domestic needs mainly with coal. This means that, although our extraction of oil will have increased twofold, the basic proportions of our fuel and energy resources will not change. At present, China's energy needs are satisfied by coal 72 percent, and this will be the ratio in the year 2000.

[Loch] What about nuclear energy?

[Gao Yangwen] We plan to build a pilot nuclear power station, but we do not expect that nuclear power will rapidly acquire significance for our fuel and energy resources.

[Loch] What if coal deposits are exhausted?

[Gao Yangwen] This is a far-off future. We have verified coal deposits of 600 billion metric tons, and the deposits that have not been verified are much, much larger. This makes it possible to contemplate the ever-expanding use of coal for processing purposes, mainly as a raw material for the chemical industry. As for your question about the long-term prospects of coal, I would stress primarily its chances of becoming an indispensable raw material for chemical industries.

[Loch] Poland is helping to build a zinc and lead mine in Yunnan Province. We have sold you construction plans and will sell you the necessary equipment. We have also carried out a trial in extracting sulfur in Tai An.

[Gao Yangwen] Yes, I know about that trial. After all, Tai An is situated in Shandong Province where I come from. However, I am unable to tell you any details of these projects, because the extraction of the raw materials for metallurgy is administered by the metallurgical department and the extraction of sulfur by the Department of Chemistry.

[Loch] Are you leaving Poland pleased with the results of your talks here?

[Gao Yangwen] Yes, I am thoroughly pleased. After all, during my visit we have established the Interdepartmental Permanent Polish-Chinese Working Group for Cooperation in Mining. We have also signed many accords. Speaking of accords I would like to recall our scientific cooperation, which we have promoted for many years. Contacts between the Scientific Research Institute of the Mining Industry in Beijing, on the one hand, and the Main Institute of Mining or the EMAG [expansion unknown], on the other, are good and the present talks should develop them still further. We have also signed an accord on exchanges of people. We invite Polish athletes from the mining industry, Polish cultural and educational teams, and Polish miners who dabble in sculpture, painting, literature, and photography to visit our country. We also want to develop students exchanges. All this should create favorable foundations for the development of Sino-Polish friendship and make for a better knowledge of each other and for comprehensive cooperation.

CSO: 2600/38

SPECIAL ECONOMIC ZONES

FOREIGN INVESTMENT GROWS IN ECONOMIC ZONES

OW160832 Beijing XINHUA in English 0737 GMT 16 Sep 84

[Text] Beijing, 16 Sep (XINHUA)—China's four special economic zones signed 353 agreements involving the use of foreign funds in the first half of 1984—nearly 70 percent of the country's total for the period.

These involve a total foreign investment worth 267.71 million U.S. dollars--52.2 percent of China's total--according to the State Statistical Bureau.

Three of the economic zones--Shenzhen, Zhuhai and Shantou—are in Guangdong Province, and the other, Xiamen, is in Fujian Province. Preferential treatment is given to overseas investors there.

The deals concentrate on Sino-foreign joint ventures and cooperative businesses. Included are also a few enterprises with sole foreign investment.

Shenzhen, China's first special economic zone, concluded 290 agreements with overseas firms during the six-month period. These involve foreign investment totalling 154.17 million U.S. dollars--40.3 percent up on the same period in 1983.

Twenty-one agreements each require an investment of more than 1.3 million U.S. dollars. The projects include a recreational center, kitchenware making, hotels, electronics industry and department store. Investment in commercial enterprises, catering and service trades, and transport and telecommunications projects has bigger increases.

During the six-month period, the other three economic zones signed 63 agreements and contracts entailing foreign investment worth 113.54 million U.S. dollars.

In Zhuhai, a deep-water wharf with a total investment of more than 37 million U.S. dollars is to be built jointly by the economic zone, a Hong Kong firm and the South China Sea Petroleum Service Corporation.

Twenty six of the 32 agreements signed in January-June are industrial and communications projects covering electronics, textiles, light industry, food industry, a new wharf and an airfield expansion project. The focus of investment has been turned from tourist facilities and services trades as in the past.

Xiamen, known as a garden on the sea for its natural scenery, cooperates with Hong Kong firms to run tourist projects including hotels and a recreational center. Four agreements on tourist facilities were signed in the first six months, involving a total investment of 32.14 million U.S. dollars.

Agreements on six industrial and five commercial projects were also signed in Xiamen. The Xiamen cigarette factory which cooperates with the U.S. Reynolds tobacco factory in producing the "Camel" filtered cigarettes signed another contract on making "Winston" and other cigarettes in May.

In Shantou, the agreements signed covered industrial, commercial, catering and service trades and aquatic products cultivation. Five Sino-foreign joint ventures will have an aggregate investment of 11.86 million U.S. dollars.

CSO: 4020/10

TRANSPORTATION

BRIEFS

MERGER OF RAILWAY BUREAUS--Beijing, 18 Sep (XINHUA)--The Ministry of Railways has decided, beginning 1 October, to abolish the Xian Railway Bureau and merge it with the Zhengzhou Railway Bureau. The ministry has also decided to abolish the Nanchang Railway Bureau and merge it with the Shanghai Railway Bureau. This is another major step taken by the ministry which has great significance in readjusting the distribution of railway bureaus and improving the railway management system. The merger of these railway bureaus will have a positive effect on coordinating, organizing, and directing transportation, as well as on making better use of railroads, more efficiently utilizing equipment, increasing transportation efficiency, and improving economic results. [Summary] [Beijing XINUA Domestic Service in Chinese 1506 GMT 18 Sep 84 OW]

LIANYUNGANG PORT DEVELOPMENT--Speaking at a meeting to discuss economic cooperation held in Lianyungang City on 22 September, Governor Gu Xiulian called on fraternal provinces and autonomous regions, as well as central departments concerned, to join Jiangsu in jointly developing and using Lianyugang Port facilities in order to promote cooperation between localities, facilitate the opening to the outside world with cooperation between localities, and accelerate the progress of the modernization drive. The meeting was attended by some (?100) leading comrades of economic departments in Henan, Anhui, Shaanxi, Gansu, Xinjiang, Sichuan, Ningxia, and Qinghai, the provinces and autonomous regions that (?maintain economic ties with) Jiangsu, as well as responsible comrades of State Council departments concerned. Gu Xiulian said that although Lianyungang is in Jiangsu Province, it is a port jointly used by the nine provinces and autonomous regions connected by the Longhai, Tianjin-Pukou, (Jinguang), (Baoheng), and (Nanxin) railways. Now Jiangsu is opening its doors to all fraternal provinces, municipalities, and autonomous regions and central departments in jointly developing the port facilities and building the economic and technical development zone. [Excerpt] [Nanjing Jiangsu Provincial Service in Mandarin 2300 GMT 22 Sep 84]

CSO: 4006/29

ECONOMICS MINISTER WELCOMES HONG KONG INVESTORS

OW120353 Taipei CNA in English 0251 GMT 12 Oct 84

[Text] Taipei, 11 Oct (CNA)--Economic Minister Hsu Il-te said Thursday that his ministry has set up a working team to help Hong Kong Chinese making investments in this country.

Reporting at a meeting of the legislative Yuan, he said a set of rules governing investments by Hong Kong Chinese is being written, under which application procedures will be simplified and speedy services provided to help them solve the various problems, including acquisition of land for building manufacturing plants.

With regard to the government policy on the setting up a big automaking plant in cooperation with leading motor companies of foreign countries, Hsu stressed that this policy remains unchanged, but added that the domestic investment environment should be improved to coordinate with the prospective investors from abroad.

He said the Economic Ministry is planning to revise the measures governing development of the automaking industry in this country. The proposed amendment, Hsu noted, will involve minimizing protection of domestic car manufacturers in a step to compel them to upgrade their production efficiency and lower their production costs so as to boost their competitiveness in the international market.

The primary goal for establishing a big motor plant here, he said, lies in basing production on economies of scale, becoming capable of marketing the cars abroad and producing quality up to international standards. With increases in exports, the domestic autoparts and machinery industries will have the opportunities to make advancement, he said.

On the termination of the cooperative agreement with Toyota Motor Company of Japan, Hsu said there were quite a number of problems facing the proposed joint venture, and negotiators were unable to overcome these obstacles in the course of discussions over a period of 2 years.

However, he stressed that automaking is an essential industry to the Republic of China and the government could not wait indefinitely for an answer from

Toyota. Hsu added that there are many big leading motor companies wishing to cooperate with this country to set up a new joint venture in production of automobiles.

In response to questions whether his ministry is able to utilize expertise from private sector, Hsu said the government is considering to follow the Japanese example by organizing an industrial production review committee with the participation of economists from private sectors for formulation of economic policies.

CSO: 4020/17

BRIEFS

INCREASED EAST EUROPEAN TRADE--The Republic of China's trade with Eastern Europe reached a record high of U.S. \$54 million in the first 8 months of this year, twice the amount registered in the same period last year. The authority for this information is the Board of Foreign Trade (BOFT). The BOFT estimated that trade between the ROC and Eastern Europe may reach U.S. \$80 million by the end of this year, compared with a total of U.S. \$50 million in 1983. The ROC's roaring economy is a key factor in its strength and rapid growth. Foreign trade is the backbone of the economy. We have been doing exceptionally well in developing foreign trade. The high quality products local manufacturers turn have won world-wide recognition. Consequently, the establishment of a strong trade relationship with most other nations is inevitable. The country's growing trade with Eastern Europe is beneficial to its economic expansion. The prospect is bright for further development of that trade. [Editorial: "Trade with Eastern Europe Increases"] [Text] [Taipei CHINA POST in English 7 Oct 84 p 2 OW]

FOREIGN EXCHANGE RESERVES--Taipei, 5 Oct (CNA)--The foreign exchange reserve hit the U.S. \$16 billion as of 1 October, C. C. Chang, governor of the Central Bank of China, reported. It showed an increase of U.S. \$3 billion from the corresponding period last year. Trade surplus between January and August reached U.S. \$5.8 billion. But the increase in foreign exchange reserve had been slower. Sharp rise in trade surplus was offset partially by a large expenditure of foreign exchange allocation, in July last year and May this year, for outgoing tourists. The Central Bank has also raised the ceiling for outward remittance by private individuals to their families abroad. That contributed to cut the foreign exchange reserve. [Text] [Taipei CNA in English 0930 GMT 5 Oct 84 OW]

TRADE MISSION EUROPEAN TOUR--Taipei, 9 Oct (CNA)--An 11-member investment and trade promotion mission left here for Europe Sunday. The team was led by John Ni, director of the Joint Industrial Investment Service Center under the Ministry of Economic Affairs. Ni told pressman before the group left that a team representing both government and private sectors would visit seven European countries, aiming to attract investment and promote trade between Europe and Taiwan. Ni said the mission planned to sponsor eight investment and trade seminars in Europe--one each in Madrid, London, Hamburg, Zurich, Amsterdam, Stockholm and two in Paris. He said that a mission survey of domestic industries' interest in Europe had shown firms eager to buy European products such as chemicals, machinery, electronics, garments and sporting goods. [Text] [Taipei CNA in English 1004 GMT 9 Oct 84 OW]

BANK OF CHINA OFFICIAL ON POST-1997 ROLE

HK060540 Hong Kong SOUTH CHINA MORNING POST in English 6 Oct 84 Business News Supplement p 1

[Article by Olivia Sin]

[Text] The Bank of China (BOC) will not become Hong Kong's central bank after 1997, according to BOC's vice-chairman, Mr Jiang Wengui.

Should there be a central bank in the future, he said its role would be assumed by a Hong Kong bank.

He did not elaborate.

"This will be in line with the concept that Hong Kong people rule Hong Kong," said Mr Jiang.

He is also the chief executive of BOC's Hong Kong and Macao Regional Office which coordinates the activities of its 13 sister banks.

He said Hong Kong does not have a central bank and the question of having one after 1997 would be decided by the Special Administration Region (SAR) Government.

Mr Jiang made the comments after delivering a lunch speech on Hong Kong's economic situation after the initialling of the Sino-British draft agreement on Hong Kong's future.

The agreement does not mention the setting up of a central bank after 1997.

It only says that the monetary and financial systems, including the systems of regulation and supervision of deposit-taking institutions and financial markets, shall be maintained.

It says the SAR government may decide its monetary and financial policies on its own.

Addressing the meeting--of the Hong Kong Kun Tong Industries and Commerce Association Ltd--Mr Jiang called on foreign and Chinese banks to continue investing here and to promote Hong Kong's financial development.

"BOC will not replace or discriminate against them," he said.

"Whether they are Chinese, Japanese, British, American or French banks, if they expand in Hong Kong they will enjoy growth potential," he added.

He warned, however, that competition among banks here is likely to be keen.

In addition, Mr Jiang said the BOC group will provide preferential loans for capital investment in the local industrial sector.

He admitted that reinvestment in the local industry has been slow for the past two years because of the "confidence problem."

But with the initialling of the draft agreement, he said the clouds over Hong Kong's economy have been cleared and it is time industrialists renovate their equipment and expand their factories.

"Otherwise, Hong Kong will lag behind other countries in technology and in the quantity of our manufactured products," he said.

Without being specific, he said BOC has doubled the amount of loans extended to creditors in the past two years.

He said Hong Kong should place emphasis on developing industries of the future and strengthening ties with China to lessen its reliance on Western markets.

He rejected suggestions that Hong Kong should only concentrate on service industries, such as finance, tourism and commerce, and disregard industry.

He said history has shown that Hong Kong's industrial development has stimulated the growth of other economic sectors, including finance and commerce.

He added that the lack of natural resources should not handicap Hong Kong's industrial development.

"There are many places in the world, such as Japan and Singapore, which also lack resources but have highly developed industries," he said.

Mr Jiang also said that China, with huge resources and abundant labour, would compliment Hong Kong's industrial development.

He stressed that China's industrial development would not suppress that of Hong Kong. "In the future, Hong Kong will become a Special Administrative Region of China and we are a family.... Hong Kong would be taken care of by the central government," he said.

CSO: 4020/16

PAPER ON PLANS FOR AIRLINES IN FUJIAN, XIAMEN

HK060602 Hong Kong SOUTH CHINA MORNING POST in English 6 Oct 84 Business News Supplement p1

[Article by Robert Mayerson]

[Text] Letters received by at least two airline offices in Hong Kong seeking a partner in a new aviation venture in China's Fujian Province have been repudiated by the provincial authorities.

A little progress has been reported on plans for an international airline based in Fujian's Xiamen Special Economic Zone.

A four-man team from Fujian, including the vice-chairman of Xiamen Aviation, Mr Xiang Zhen, as well as representatives of the Civil Aviation Administration of China (CAAC) and the provincial Government, left Hong Kong late last month after two weeks of meetings with foreign airline representatives, according to a spokesman for Fujian Enterprises Co, the province's local trading arm.

The airline plan "is still in the initial stages," and it has not yet been decided whether to lease or to buy aircraft, he said.

The spokesman added the visiting Fujian representatives specifically denied any prior knowledge of the letters, which were dated 22 September and signed by Mr Henry Yu of Jetwell Grading Co, which has an office in Central.

"This letter is not officially authorized," he said.

Mr Yu was not available for comment.

The letter, copies of which were received by local offices of Alitalia and United Airlines last week, purported to offer a partnership "in running an airline business in the form of a joint venture with the Government of Fujian Province in China."

Previous reports had linked Xiamen Aviation, which the Fujian Enterprises spokesman said is closely related both to the provincial government and the Xiamen municipal authorities, with several foreign partners, including Cathay Pacific and Hawaii's Aloha Airlines.

But a statement from the CAAC director-general, Mr Shen Tu, published in the CHINA DAILY in August which said "it is in principle undesirable to run domestic flights jointly with foreign air companies," has forced some observers to lower their estimates of the scale of possible cooperation.

A spokesman for Aloha Airlines in Honolulu told BUSINESS WEEK yesterday that a memorandum of understanding under which Aloha would provide management consulting services of Xiamen Aviation was, in fact, signed early in the year.

"There is nothing new to report," the spokeswoman added.

Cathay Pacific, meanwhile, refused to comment on whether it had held any meetings with Fujian officials or received a copy of the Jetwell letter.

According to the text of the letter, the foreign partner would initially supply two 40-passenger aircraft, as well as spare parts maintenance, ground service and equipment, while the Chinese side would be responsible for pilots, officers, technicians and hangars.

The proposed airline, according to the letter, would initially operate within the province at Fuzhou, Xiamen and Mt Wuyi with possible extensions to Shanghai and Peking.

CSO: 4020/16

HONG KONG ECONOMIC TRENDS

HONG KONG GOVERNOR ON ECONOMY, FINANCES

HK050145 Hong Kong SOUTH CHINA MORNING POST in English 5 Oct 84 p 17

[Text] The governor, Sir Edward Youde, yesterday painted a rosy picture for Hong Kong's economic and financial situation.

In his annual policy speech to the Legislative Council, Sir Edward spoke of a strong economy, a rapid increase of domestic export, a stable exchange rate, a lowering inflation rate, an on-target revenue, a smaller-than-expected deficit and a close full employment.

And he was confident the announcement of the draft agreement on Hong Kong's future would give renewed confidence and lead to a revival of domestic investment.

Despite the encouraging development, Sir Edward made it clear that the government had no plans to change the linked exchange rate system.

He said 1984 "is the second year of export-led recovery and the indications are that the growth rate of our economy is going to be stronger than earlier expected."

Overall domestic exports for this year, he said, would probably grow by 18 per cent and the territory's gross domestic product was expected to grow by 8 per cent.

"These growth rates are very encouraging.

"Once again the resilience of our economy and the external competitiveness of our products have enabled Hong Kong to reap the benefits of a revival in demand in our markets, particularly the United States," he said.

Domestic exports to China have also increased rapidly, so that China has become Hong Kong's third largest market.

"This is very much to our mutual benefit both economically and in the wider sense," said Sir Edward.

Our export performance has also led to a major improvement in the employment situation.

In the 3 months from May to July, the unemployment rate was 3.4 per cent and the underemployment rate was 0.9 per cent, indicating that the labour force was fully employed, he said.

Higher income are reflected in the continuing growth of consumer spending.

The rate of inflation has slowed since the beginning of this year to about 9 per cent at present.

Sir Edward said there seemed to be good prospects that it would ease further in the coming months.

"This is attributable to the combination of relatively moderate increases in world commodity prices and the stability of the Hong Kong dollar under the linked exchange rate system.

He believes Hong Kong's economy will continue to benefit next year from the expected growth in the world economy.

But he cautioned that Hong Kong "remains as always vulnerable to external events.

"Whatever happens, the government will continue with prudent and consistent policies involving minimum intervention, which, in the past, have been instrumental in fostering sustained economic growth," he said.

Sir Edward expressed concern over the protectionist pressures exerted on Hong Kong by the U.S.

He mentioned the reestablishment of restraint limits by the U.S. on a number of items which were supposed to have been liberalised under the 1982-1987 U.S.-Hong Kong textile agreement.

"More recently," he said, "new customs regulations had been introduced which, apart from being disruptive to trade, are inconsistent with the basic principles on which our bilateral agreement was concluded.

"Legislative proposals for the renewal of the U.S. scheme under the generalised system of preferences, which will expire in January 1985, threaten to affect us adversely," he said.

Sir Edward said the government viewed all these developments with great concern.

"We have already made known our views to the U.S. Government and, in respect of the textile issue, will continue to make every effort to restore the position both through bilateral consultations and in conjunctions with other participants in the GATT and MFA.

Sir Edward said the economic recession in 1982 is still having an adverse effect on government revenue notably because of the depressed state of the property market and the poor performances of some companies that year.

In addition, duties collected so far this year have been lower than expected, possibly the result of substantial prebudget stocking.

He said these shortfalls, however, were likely to be balanced by better than estimated revenue from other sources so that total revenue for this year "is still on target."

On the other hand, expenditure is running below the level estimated mainly because of continuing tight control and the competitive tender prices bid for some capital projects.

Sir Edward said it was expected there would be an appreciably smaller deficit on general revenue account than the budgeted figure of \$2.1 billion.

This, in any case, represents less than 1 percent of the GDP.

Public Sector Expenditure I

In 1984-85 is likely to constitute slightly less than 17.5 percent of the revised GDP, compared with the original budget estimate of 18.3 percent.

Total expenditure on capital works last year amounted to \$12 billion and a similar investment is forecast for this financial year.

Of this, \$4.1 billion is expected to be spent on public rental housing and the home ownership scheme.

On regulating the financial sector, Sir Edward said enabling legislation to permit the operation of a new market in stock index futures and other financial instruments would shortly be introduced into the legislative council.

And a further bill, aimed at improving the regulatory framework of the commodities trading ordinances, is being prepared.

He said a further step in the development of our financial sector would be the unification of our four stock exchanges, planned for the end of next year.

"As part of this development, legislation will be introduced this session regarding membership criteria for the unified exchange. Listing and compensation fund rules are also being prepared," he said.

Sir Edward noted that the recent growth in our exports had not been matched in recent years by as large as a resurgence of investment by local industry as we had experienced in the past.

He said overseas investors on the other hand continued to show considerable interest in Hong Kong.

"Hong Kong has built up and maintained its industrial lead in the region through a continual process of capital re-investment in new plant and equipment.

"In a competitive world, we cannot afford to let that lead slip," he said.

CSO: 4020/15

HONG KONG-SHENZHEN ECONOMIC RELATIONS DISCUSSED

Guangzhou GANG-AO JINGJI [HONG KONG AND MACAO ECONOMIC DIGEST] in Chinese No 3-4, 1984 pp 74-78

[Article by Zhou Bingteng [6650 4426 7506] of the Shenzhen Economic Institute : "A Review and Forecast of Shenzhen-Hong Kong Economic Relations"]

[Text] I. Shenzhen and Hong Kong throughout history have belonged to the same county, and residents from the two places are compatriots from the original area and for a few thousand years have propagated and multiplied on the same land.

Bao'an County was the predecessor of Shenzhen, and throughout history Hong Kong belonged to Bao'an County (it was changed to Xinan County between the Ming and Qing Dynasties). The residents of Shenzhen and Hong Kong not only have the same culture and race and the same descendants, but together they have created and developed the politics, economy and culture of Zinan (i.e., Baoan) County. The two places economically have had a close blood relationship. It was only after the Opium War that Hong Kong fell to colonial England and was separated from Shenzhen. Nevertheless, economic intercourse between Shenzhen and Hong Kong has been uninterrupted. After the PRC was established, although the social system of the two cities were different, they still had economic dealings.

After Shenzhen Special Economic Zone [SEZ] was established, due to the implementation of the policy of opening up to the outside world, Shenzhen adopted flexible economic measures, broke through the state of mind geared toward closing the country to international intercourse, opened up its doors to foreign countries and caused economic relations between Shenzhen and Hong Kong to develop to an unprecedented and close level. This relationship not only has already been reflected in Shenzhen in such respects as the export of goods and materials and fresh water to Hong Kong and remittances from the Hong Kong compatriots, but it is also reflected in every respect in the economic world. The scope of economic cooperation extends to industry, agriculture, animal husbandry, the aquatic products industry, the food and services industry, the tourist industry, building industry, communications and transportation, harbors and docks, petroleum prospecting and recovery, real estate development, commodities and housing, storage, banking and

insurance, medicine and health, culture and education, social sciences and every other type of industry. Economically this is a comprehensive and close relationship.

First, Shenzhen enthusiastically imports materials, advanced technology and equipment and scientific management experience from Hong Kong.

From 1979 to 1983, Shenzhen (including Bao'an County) imported a total of 2,560 foreign capital investment projects, they agreed on HK\$ 14.2 billion in total investment and HK\$2.98 billion was actually put to use. Of this investment, Hong Kong funds accounted for 91 percent of the total investment agreed upon by foreign business.

With regard to importing equipment, from 1979 to 1983, Shenzhen imported a total of 25,000 pieces (sets) of equipment, and of this, some of the more advanced technical equipment was imported from Hong Kong or was imported from abroad through Hong Kong.

The import of projects and equipment and the joint development and application has enabled advanced technology and scientific management methods also to be imported.

Second, Hong Kong and Shenzhen with regard to industry, energy resources and transportation have strengthened their cooperation.

1. Concerning industry, from 1979 to 1983 foreign businessman have made agreements to invest a total of HK\$1.96 billion in Shenzhen's industry, and HK\$1.299 have actually been applied. Hong Kong funds account for a fairly large proportion of this investment. Yet the form of investment has changed from considering compensatory trade, processing and assembly and breeding as primary to considering joint venture, cooperative ventures and independent management as primary. This is especially so with regard to the electronics industry, and much electronics production technology and equipment have continuously flowed in from Hong Kong or has been diverted from abroad through Hong Kong. This technology and equipment, after being digested and transformed, are continuously passed on to the interior of the country after going through joint enterprises and many different channels, thus promoting the "four modernizations" within our country.

2. With regard to energy resources, Shenzhen and Hong Kong have carried out cooperation in such fields as the electric and oil industries. The establishment of China's first nuclear power plant--the Shenzhen Dayawan Nuclear Power Plant--was the first large-scale agreement by both sides with regard to nuclear power. After the nuclear power plant is built, Guangdong will take 75 percent of the electricity, and it will sell 45 percent of this to Hong Kong. Hong Kong, which also has the energy that it is due, will altogether take 70 percent of the electric power. The development of petroleum in the South China Sea is a place where Shenzhen and Hong Kong, with regard to energy resources, have cooperated fully. The China Construction Financial (Hong Kong)

Company, Ltd, the Hong Kong Huarun Company, the Huangzhenhui Investment Company, Ltd, and the China Offshore Petroleum Service (Hong Kong) Company, Ltd, the China South China Sea Petroleum Joint Service Company, the South China Sea Eastern Petroleum Company, the Shenzhen SEZ Development Company and other enterprises have organized the Nanshan Development Company and have successively invested 400 million yuan and have built a South China Sea logistics base.

3. With regard to transportation, from 1979 to 1983, foreign businessmen agreed to invest HK\$490 million in the transportation industry. Of this amount, funds from Hong Kong businessmen accounted for the greatest portion. The SEZ Development Company and the Hong Kong Hehe [0678 0735] Company, Ltd, cooperated to develop and invest HK\$300 million in a modern Shenzhen train station and signed an agreement to begin construction. The Hong Kong Hehe Company, Ltd, also made an investment to lay a multiple-track railroad between Guangzhou and Shenzhen. Concerning roads connecting with Hong Kong, besides existing roads, two bridges are being built to hook up with Hong Kong's roads. Concerning the passenger and freight transport of harbors and docks, we already have berths for 3,000-ton freight barges and passenger and cargo docks for draught lines below 5 meters, and passenger and freight ships have already transversed between Hong Kong and Shenzhen. An agreement has already been made to build a tourist ship line between Meisha in Shenzhen and Shatian in Hong Kong. In short, there has been great development between Shenzhen and Hong Kong in railroad, highway and waterway transportation.

Third, there has been great development in the materials and technology transfer between the two cities.

Contacts for goods and materials are close. According to statistics, from 1979 to 1983, Shenzhen exported to Hong Kong or transferred through Hong Kong goods and materials totaling 167 million yuan. However, Shenzhen imported 3.215 billion yuan of goods from Hong Kong. Most of this was building materials such as steel products, cement and lumber. The amount of fresh water supplied to Hong Kong also greatly increased. In 1983, Shenzhen supplied 255 million tons of water, more than a 50 percent increase compared to the year before.

Technical exchange is frequent. In order to strengthen the flow of technology between Hong Kong and Macao, both sides jointly hold many exhibitions and exchange conferences in Shenzhen. In October of last year, a scientific instruments exhibition was held. In March of this year, another technical exchange conference was jointly held. These exhibitions and exchange conferences play an excellent role in promoting the flow of technology between the two cities and in accelerating the development of technology in Shenzhen and the interior of the country.

Fourth, Shenzhen and Hong Kong also have a close relationship with regard to building, tourism and telecommunications. For example, in the building industry, Hong Kong has five companies that have participated with Ze Shilou [0463 1597 2869] in building and design work in Shenzhen, and Hong Kong's

construction workers have also participated in the construction of Shenzhen. With regard to the tourist trade, many Hong Kong businessmen in succession invested in and started resort towns, hotels and restaurants. According to statistics, from 1979 to 1983, actual investment in this area totaled HK\$150 million. This investment basically came from Hong Kong businessmen. The number of compatriots from Hong Kong who come to Shenzhen to travel has also increased daily. From 1979 to 1982, Shenzhen received a total of 175,400 compatriots from Hong Kong and Macao. In 1983, 4.658 million people entered Shenzhen port, and the great portion of these were tourists from Hong Kong and Macao. With regard to telecommunications, Shenzhen has circuits linking directly with Shenzhen and can install and connect teleprinters to communicate with Hong Kong, and SEZ users can automatically or semi-automatically communicate with Hong Kong through telegraph or telephone.

These numerous facts prove that after the Shenzhen SEZ is established, economic relations between Shenzhen and Hong Kong will develop and be greatly strengthened.

II. As far as prospects for the future are concerned, economic relations between Hong Kong and Shenzhen will be closer and more stable. We must be fully confident and strive to develop and strengthen this relationship.

In the long period of time from the present until Hong Kong's sovereignty is returned, we can make an effort in many respects and so promote the strengthening and development of economic relations between Hong Kong and Shenzhen.

First, import more advanced technology and equipment.

What is known as the "third tide" in the new technological revolution is having and will continue to have a great effect on the economies of all nations. Faced with this challenge, we are adopting positive countermeasures and are paying more and more attention to using the world's advanced technology and equipment to serve our four modernizations. Shenzhen is China's "window" for importing advanced technology and equipment, and Hong Kong can give full play to its role as a bridge. The strengthening of cooperation between Shenzhen and Hong Kong can cause the advanced technology and equipment of the rest of the world to pass from Hong Kong to Shenzhen, where it can be forwarded to the interior of the country. The aforementioned effect will seem increasingly important as time goes by.

Second, bring in more Hong Kong capital, foreign capital and all types of qualified personnel.

Hong Kong is the place of exchange for foreign capital, overseas capital and Hong Kong capital. It has U.S.\$40-50 billion in funds and a little more than U.S.\$20 billion in circulating funds. Recently, a large amount of foreign capital has flowed into Hong Kong. Not only are these funds from Southeast Asian nations, but they are also from the U.S. and Western Europe, and another sum of Hong Kong funds that had been circulating abroad recently returned to Hong Kong. Hong Kong is also the place where different types of enterprise

management and qualified technical personnel come together. Through Hong Kong, China can import the funds and intelligence needed to build the SEZ.

Third, Shenzhen can cooperate in the development of nuclear energy and the South China Sea oil fields.

Hong Kong has ample funds and technology, yet it does not have enough land and lacks electricity. China on the other hand is striving to develop nuclear energy and has already established a nuclear corporation in Shenzhen. Hong Kong and Shenzhen can both benefit by cooperating hand in hand. At the same time, Shenzhen faces the South China sea and is an important logistics base for the South China Sea oil fields. The investment totals nearly 10 billion yuan and the base occupies 41 square km. It is an oil city similar to Aberdeen in Great Britain and Houston in the United States and rises abruptly to the south of Shenzhen. Not only will the base provide outstanding logistics service for the oilfields of the South China Sea, but it can also utilize the petroleum from the South China Sea and strive to develop the petrochemical industry. Hong Kong's relevant technical and petroleum exploration personnel can fully cooperate with us.

Fourth, we should continue to show consideration for the livelihoods of our Hong Kong compatriots.

For a long time past, the mainland has provided to Hong Kong, at favorable prices, large quantities of staple foods, sideline products, goods of daily use, food and water, industrial raw materials and fuel. We have enabled Hong Kong to maintain both political and economic stability. In this regard, Shenzhen plays an important role. Currently, Shenzhen still continuously transports all types of materials to Hong Kong. Even after Hong Kong's sovereignty is returned, this consideration and supply will continue to develop and be maintained.

Fifth, the world economic center will transfer from the Atlantic coast to the Pacific coastal regions. Shenzhen and Hong Kong are situated right in the main zone of the Asian Pacific region. By the end of this century they will be able to cooperate to act out a drama full of power and grandeur on the stage of the world economic center.

These points are merely the salient ones. In fact, the cooperation will greatly exceed the scope that is described above and will be carried out in every respect in the realm of economics. Cao Weilian [2580 4850 1670], the assistant chief of the Hong Kong branch of Xinhuashe in the 35th anniversary issue of Hong Kong's WENHUIBAO, published a discussion in which he pointed out the "five combines" of the mainland and Hong Kong, i.e., the mainland's agriculture and its raw and processed materials industry should combine with Hong Kong's processing; the mainland's heavy industry and Hong Kong's light industry should combine; the mainland's industry and Hong Kong's commercial and service industries should combine; the mainland's enterprise management should combine with Hong Kong's management technology; and the mainland's

enterprise technological transformations and Hong Kong's technical trade should combine. Shenzhen will directly or indirectly play a great role in the "five combines."

Strengthening economic relations between Shenzhen and Hong Kong and maintaining a stable and prosperous Hong Kong has an important effect on managing the speedier and better development of the Shenzhen SEZ economy. The numerous discussions above have already proved this point. Yet as far as Hong Kong is concerned, the competent running of the SEZ will have a corresponding benefit to Hong Kong. This is just as Hong Kong's ECONOMIC GUIDANCE JOURNAL pointed out: the competent management of the SEZ can have an important effect on stabilizing Hong Kong's economy. The argument is: 1. competent management of the SEZ is definitely beneficial toward China's economic development. But all along, Hong Kong has had its back to China and faces abroad in its economic development. If China's economy continuously develops in a forward direction, Hong Kong will reap corresponding benefits. 2. Foreign enterprises investing in the SEZ's development will make use of Hong Kong to some extent. Hong Kong has a completed port, superb communications equipment and ample specialized personnel, and it can provide the necessary auxiliary support for the mainland. This also indirectly helps Hong Kong's economy to continue to flourish. 3. With the more open policies of the SEZ, management methods will become more flexible, the investment environment will improve and Hong Kong businessmen will have an ever-growing interest in investing in SEZs. When investing in the building of factories in the SEZ, they must also consider the problems of coordinating their efforts with Hong Kong's factories. Thus, Hong Kong and the mainland's SEZs will take the road to cooperative development, and this will benefit Hong Kong's economic development.

In short, we can see that both in the past and at the present time, Shenzhen and Hong Kong have always had economic intercourse. This intercourse will become more frequent and close especially after the Shenzhen SEZ is established. As for the future, including the time after Hong Kong's sovereignty is returned in 1997, we have full confidence that economic relations between Shenzhen and Hong Kong will develop and that they will fly wing to wing and jointly prosper.

12437

CSO: 4006/741

BRIEFS

DEFICIT UP--The government deficit for the first 4 months of the financial year--at \$2.64 billion--was a thumping \$1 billion higher than for the same period last year. At the end of July last year, the deficit was \$1.63 billion, according to figures in the GOVERNMENT GAZETTE yesterday. The deficit for July this year alone was \$1.48 billion, compared to \$851 million recorded last July. Expenditure came to \$2.43 billion against last July's \$1.93 billion. Total revenue from land transactions until July was only \$576 million. There is still a long way to go to reach the government's expectation of a total of \$4.23 billion from this source this year. The publication of these figures follows an optimistic mid-year review of Hong Kong's finances last month by the financial secretary, Sir John Bremridge. He forecast on that occasion that the deficit for the whole year would be "appreciably smaller" than the \$2.1 billion he originally expected. [Text] [Hong Kong SOUTH CHINA MORNING POST in English 6 Oct 84 p 1 HK]

AGREEMENT ON LAND SALES--Reports from Beijing say China and British have reached an agreement over land sales in Hong Kong. It means that from next year Beijing will have some control over the revenue raised from sales of crown land. Rex MacDonald explains: [Begin recording] Reliable sources in the Chinese capital have told commercial radio that a special committee will be set up next year to monitor land sales. Those on the committee will include members who are either from China or chosen by China. When land production will be set aside for the post-1997 administration. It is also reported that all New Territories leases will be automatically extended for 50 years after the changeover. The landowners will not be required to pay a premium for the extension, but will have to pay a yearly tax amounting to 3 percent to 3 percent of the retrievable value. Observers say that the concessions remove one of the last obstacles in the way of a Sino-British agreement, leaving civil aviation as the main issue still keeping the negotiators busy. [End recording] [Text] [Hong Kong Commercial Radio in English 0430 GMT 9 Sep 84 HK]

PROPERTY MARKET PROSPECTS--Revenue from land sales will no longer provide a significant proportion of total government revenue, the financial secretary, Sir John Bremridge, said yesterday. Speaking to reporters after officiating at the "topping out" of Hong Kong's biggest Private Sector Participation (housing) Scheme (PSPS) at Richland Gardens, Kowloon Bay, Sir John cryptically said any shortfall would have to come from "increased taxes or reduced government expenditure." Sir John estimated that in the ensuing year land sales

would account for only \$2 billion from total revenues of \$37 billion. He expressed doubt that the property market would rise as rapidly as some people were expecting. "I don't believe property values are going to rise 30 percent in the short term as some have been advocating." He reiterated his confidence in the future of Hong Kong following the initialling of the Sino-British agreement, and said neither the performance of the stock market nor the determination to maintain the Hong Kong dollar's link with the U.S. dollar changed this view. The market's soggy performance of late has dismayed some observers, who had been looking for a sustained and uninterrupted rise after the joint declaration. [Excerpt] [Hong Kong SOUTH CHINA MORNING POST in English 10 Oct 84 Business News Supplement p 1 HK]

CSO: 4020/15

END

END OF

FICHE

DATE FILMED

5 Nov 1984